
Budget 2017

A summary of the Budget 2017

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1. Introduction

This document summarises the key changes to tax rates relevant to contractors, freelancers & self- employed professionals to come out of the governments Budget which was delivered on 8th March 2017.

This summary is published by Brookson, a leading provider of accountancy, tax advice and support services to freelance contractors, interims, locums and small businesses. We support our customers in their chosen way of working through their Limited Company, Umbrella Employment solutions and SME Accountancy services.

2. Company/Business Tax

2.1 IR35 Reform in the Public Sector

This change impacts contractors working in the Public Sector. From 6 April 2017, all Public Sector bodies will be responsible for determining the IR35 status of any limited company contractors providing service to them. The business which makes payment to the limited company (end client or agency) will then be responsible for ensuring that PAYE is withheld from payments made to any limited companies who fall inside IR35 – based on the Public Sector bodies conclusion.

We have produced a [webinar](#) on this topic which provides an overview of the changes and some Practical advice for contractors impacted by it.

Contractors working in the private sector will not see any changes to the current IR35 regime.

2.2 Corporation Tax Rate

As previously announced the Corporation Tax rate will be reduced to 19% effective from April 2017 and down further to 17% effective from April 2020.

2.3 National Insurance Contributions

From April 2017, it was announced in the Autumn Statement 2016, that the National Insurance Primary thresholds will be aligned, meaning that both employees and employers will start paying National Insurance on weekly earnings above £157.

Also, if you are currently registered as a sole trader, Class 2 National Insurance will be abolished effective from April 2018.

However, in the 2017 Budget the Chancellor announced that the rate of Class 4 National Insurance payable on the profits made by the business will increase to 10% from April 2018 and then a further 1% increase from April 2019 taking the Class 4 payable to 11%.

2.4 Salary Sacrifice

Following the Government's consultation, the tax and employer National Insurance advantages of salary sacrifice schemes will be removed from April 2017. This is with the exception of arrangements relating to pension (including advice), childcare, cycle to work and ultra-low emission cars. This will mean that employees swapping salary for benefits will buy them out of their post-tax income. Arrangements in place before April 2017 will be protected until April 2021, and arrangements for cars, accommodation and school fees will be protected until April 2021.

This will not impact limited company contractors or Brookson Umbrella employees.

2.5 VAT Measures

The Government will introduce a new 16.5% rate from 1 April 2017 for businesses with limited costs, such as contractor limited companies. Currently, businesses determine which Flat Rate percentage to use by reference to their trade sector. HMRC have changed this so that a FRV rate of 16.5% will apply to a contractor business (with limited costs).

We are disappointed by this change as it is appeared to be targeting the abuse of the FRV scheme in certain sectors where a limited company is used solely for the purpose of accessing the FRV benefit for a worker who is caught by IR35 e.g. teachers. However, genuine contractors across all market sectors will be impacted and appear to be being asked to foot the bill for non-compliance.

We have produced a [webinar](#) and [further guidance](#) on this topic, including some advice for contractors to reconsider their VAT status in light of this change.

The Government also announced in the Budget that the VAT registration threshold will increase to £85,000 effective from April 2017 and a deregistration threshold will increase to £83,000.

3. Personal Tax

3.1 Income Tax

The Chancellor announced in the 2016 Autumn Statement that the rates previously announced for 2017/2018 will remain unchanged:

- Personal allowance increase to £11,500 from April 2017 (£11,000 2016/2017)
- Higher rate tax threshold increase to £33,500 (£32,000 2016/2017)
- Overall increase in total allowances & basic rate threshold to £45,000
- Additional tax rate threshold remains unchanged at £150,000

It was confirmed in the Autumn Statement that the Government will meet its commitment by the end of this parliament, to raise the income tax personal allowance to £12,500 and the higher rate tax threshold increase to £37,500, meaning individuals will need to earn a total of £50,000 before they incur a higher rate tax liability.

3.2 Dividends Allowance

The tax free dividend allowance that is currently available to all shareholder of £5,000 will be reduced to £2000 from April 2018, this is to help bring in line the tax difference between employed and self-employed.

4. Other Taxes

4.1 Benefits in Kind

The Government will consider how benefits in kind are valued for tax purposes, a consultation will be issued and once Brookson has more information we will review this.

4.2 Employee Business Expenses

There was no further guidance by the government in today's Spring Budget on the use of income tax relief for employees business expenses, including those that are not reimbursed by their employer. This has the potential to inadvertently impact limited company contractors and we will be keeping an eye on how this evolves. They are still reviewing this matter and further guidance will be published at a later date.

4.3 Lifetime ISA and ISA Limit

It was announced that from April 2017 for adults under the age of 40 that a new lifetime ISA will be available. You will be able to contribute up to £4,000 per year and receive a 25% bonus from the government. Funds, including the Government bonuses, can be used to buy a first home at any time from 12 months' after the account opening and can be withdrawn from age 60.

The overall annual ISA subscription limit will be increase to £20,000 from April 2017.

4.4 Disguised Remuneration

The government announced in the Budget 2016 that it intended to take action against those who have used or continue to use disguised remuneration schemes and who have not yet paid their fair share of tax. The Government have announced in the 2017 Budget that this will be extended to tackle the use of disguised remuneration avoidance schemes and the self-employed as well.

This mainly impacts people using tax avoidance vehicles such as Employee Benefit Trusts or other "contractor loan schemes" and will not impact Brookson customers.

4.5 Income from Trading or Property

For those making small amounts of income through trading or property, the Chancellor announced that from April 2017 individuals with property income or trading income below £1,000 will no longer need to declare or pay tax on that income.

4.6 Buy to let Mortgages on Rental Property

As previously announced by the Government in 2015 from April 2017 the amount of deduction from property income will be restricted to:

- 75% for 2017 to 2018
- 50% for 2018 to 2019
- 25% for 2019 to 2020

Individuals will be able to claim a basic rate tax reduction from their Income Tax liability on the portion of the finance costs not deducted in calculating the profit therefore this will have an increase in tax if you pay higher rate tax on your rental income.

Further Information

If you require any further information or assistance regarding the 2017 Budget, please feel free to contact one of our Specialist Customer Advisors on **0800 230 0213** or email **newbusiness@brookson.co.uk**.