The Construction Industry Joint Taxation Committee

JTC

JTC NEWSLINE

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The Budget July 2015 - What has been announced and what does it mean?

It is interesting to look at the budget from a construction industry perspective. There is a lot of focus in the press about the National Minimum Wage and the creation of the new Living Wage (£7.20 an hour in April 2017). In construction the vast majority of workers are on rates well above these levels and they will not cause the problems in construction that they are expected to cause for retailing.

There is interest too in the financial press about the changes to Corporation Tax payment dates for companies with annual tax profits of £20 million or more – and this measure includes groups where the companies together meet this threshold. Whilst it is a major change for those affected again the number of businesses at this level is not enormous.

My attention has fallen on the measures that are not so obvious but will cause some real hurt in the sub-contractor community particularly those who work though umbrella companies and personal service companies. The aim of HMRC is quite obvious. They view these structures as tax avoidance and they want to reduce their tax advantage. The measures will certainly affect those in the target zone – but will also have implications for firms who were not.

The first is the Chancellor's announcement that he will abolish dividend tax credits with a new tax free allowance of £5,000. Once this allowance has been used the rate of tax on dividends will be an extra 7.5% for basic rate taxpayers and 32.5% for higher rate taxpayers. In the small trader community there are many who pay themselves out of their own limited company through dividends and not wages – to avoid NIC. This is no longer likely to be a tax efficient strategy.

The second measure to hurt is the announcement that companies with only one employee will not qualify for the £2,000 employers NIC relief. So the NIC paid by a personal services company with only one employee will go up by £2,000 and not down.

Then there is a measure revealed in a consultation document on travel and subsistence payments to remove the tax free status from payments for travel and subsistence made to workers supplied through agencies and intermediaries. Many of these workers have been encouraged to work through personal service companies and will lose out on the other measures. Their wages now have to run through PAYE but costs have been controlled by the use of tax free allowances. This is to stop if the consultation proposals are enacted.

Finally there is to be a full scale review of IR 35, personal services companies, which the treasury believe currently, disguise ordinary employment and reduce the NIC take to government.

We will see some changes in the way businesses in construction pay themselves and pay others as these measures come into force. The measures are aimed at collecting NIC and tax. If they are successful the tax will come out of employers' pockets and workers' pockets and put pressure on prices.

Now down to the changes in general.

Income Tax

Personal allowances will rise to £10,600 in 2015-16.
Higher rate threshold will rise to £42,385 in 2015-16.
The NIC Upper Earnings limit will also increase to remain aligned.

NIC

The NIC Employment allowance will increase from £2,000 to £3,000 in April 2016 but be removed for one employee companies.

Corporation Tax

The Corporation Tax rate will reduce from 20% to 19% in 2017.
Companies with annual profits of £20 million or more, or in groups where profits exceed that threshold, will pay Corporation Tax earlier, in four quarterly instalments starting in April 2017.
Annual investment allowance will increase from £25,000 to £200,000 per year from January 2016.

Insurance Premium Tax

This will increase to 9.5% from November 2015.

Landlords

The rent a room scheme relief is increased to £7,500.
Where landlords of buy to let property have raised loans and mortgages to buy the property, interest relief will be restricted to the basic rate. This will be phased over 4 years starting in April 2017.
From April 2016 there will be a new tax relief to allow residential landlords to deduct the actual costs of replacing furnishings and the current wear and tear allowance will be replaced.

Continued overleaf

The Budget July 2015 - What has been announced and what does it mean? cont'd

Vehicles

Vehicle Excise Duty is to come back for almost all vehicles from April 2017 whatever their emissions. 95% of vehicles will pay £140 a year.

Inheritance Tax

A new nil rate band has been invented of £100,000 per person to be used when a house is passed to direct descendants. Like the current inheritance allowance of £325,000 (which remains frozen) it can pass between spouses if unused. For estates worth more than £2,000,000 this allowance will taper away with a withdrawal of £2 for every £1 over the threshold.

Tax Avoidance and Evasion

HMRC has been granted a lot of resource to run major projects to tackle these.

Training Levy

A training levy on large firms was announced but no details were given. The Government will consult. We can only hope that construction firms who already pay CITB levy will be exempt. ■

CIS - urgent warning to firms paying for plant hire and scaffolding

HMRC inspection visits are currently focusing on whether the correct split has been used when paying net paid plant hire and scaffolding businesses.
Do your own check now.

- Do you pay for plant hire or scaffolding?
- List out the firms paid net.
- Check that there is no part of any payment being made gross for 'materials'.

HMRC will argue that unless the firm itself hires in the plant or scaffold that they have supplied to you, there are no materials provided. This position is legally correct.
Do not pay for scaffolding or plant hire and allow any part of the payment to be made gross.
If you need help with the issues raised email Liz@thetaxbridge.com ■

Do you get workers through an agency or other intermediary?

There are proposals to change the law so that travel allowances and subsistence paid to anyone working through an intermediary or agency must always be taxed – no part of it will be tax free.
The change will be made to reduce the tax advantages (principally the avoidance of NIC) of getting workers through an agency or intermediary.
The changes are part of an ongoing consultation with the industry. If you have views for or against the changes please email Liz@thetaxbridge.com. ■

Time to pay arrangements

When you cannot pay tax on time you **must** phone HMRC **before** the due date and arrange a time to pay agreement. These are arrangements to pay by instalments and from 3 August 2015 will have to be made by direct debit. Once a deadline is missed it is almost impossible to avoid a penalty for late payment so phone before not after a due date. ■

Do you supply two or more labourers to a client?

If so you may be an employment intermediary and will need to know about the new return that they are required to complete. The deadline for the first return is 5th August 2015.

An employment intermediary is -

- a business,
- that supplies a worker for their client,
- who pays the intermediary for this service.

If you do supply workers you may need to send HMRC a report every three months. You will need to do this if you -

- have a direct contract with a client/ business,
- provide more than one worker's services to that client,
- do not directly operate PAYE for these workers.

This applies even if you withhold tax under CIS. If you supply labourers to a client and don't operate PAYE you need to send HMRC the new return. Paying labourers under the CIS scheme doesn't exempt you from this legislation.

Not every employment intermediary has to send HMRC a report. It is only the intermediary who has the direct contract with the business client who should send the details on the form.

The return is straightforward to complete using the new online service which you can sign up to use on the GOV.UK website. If you haven't already, you will need to register to use HMRC online services first.

You can find more information at **www.gov.uk/government/publications/employment-intermediaries-reporting-requirements.** ■

Are you a house builder with a show home or view home?

If this applies to you please can you email Liz Bridge Liz@thetaxbridge.com. Liz Bridge is meeting with the valuation office about the valuation of show houses for commercial rating purposes and is looking for evidence.
Liz is particularly keen to speak to anyone who has sold a show home/view home and rented it back short term to continue using it as a show home. ■

Caution for firms paying their directors in dividends rather than wages

The Chancellor has announced that from April 2016 there will be a significant change to the dividend income tax regime. The reform is designed to reduce what the government perceives to be strong incentives to incorporate businesses and extract profits by way of dividend with a lower rate of overall tax.

The proposal is that there will be a new annual dividend allowance of £5,000. The 1/9 tax credit will disappear. The new tax rates on dividend income will be 7.5%, 32.5% and 38.1% for basic, higher and additional rate taxpayers respectively. These new rates will replace the 0%, 25% and 30.56% for basic, higher and additional rate taxpayers.

The £5,000 dividend allowance is separate to the £1,000 allowance for savings (which excludes dividends) income, which was announced previously and is also due to start in April 2016.

Beware! In his speech the Chancellor said that: 'Those who either pay themselves in dividends, or have large shareholdings worth typically over £140,000, will pay more tax'.

Once this regime is in place it will be only too easy to increase the rates. The Chancellor has promised not to increase income tax and VAT rates but this is a new regime and **not** covered by any promise.

If you have any questions regarding any of the issues raised in this edition of Newsline please contact Liz Bridge.

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