

JTC NEWSLINE

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CIS - Paying scaffolders and plant hire

I apologise to everyone I confused last month. A good rule of thumb is that if you are paying for scaffolding or plant hire, and the subcontractor is to be net paid, operate the CIS deduction on the whole payment. The only part of any payment that can be paid gross is for materials the subcontractor has supplied to you and which you then own or any hire charges that the subcontractor himself has incurred because he didn't own enough plant. It is dangerous to pay 'net' scaffolding contractors or plant hire providers any money gross, only do it if you are certain. ■

Companies subject to IR35

These are one man companies where special legislation applies because they are thought to be vehicles for the avoidance of PAYE. There is to be a review of this legislation, not with a view to abolishing it, but to making compliance easier.

If you are the owner of an IR35 company remember to talk to your accountant about whether it is worthwhile now that there are restrictions on the employer NIC holiday. ■

More bad news for employment agencies

The Court of Appeal has just upheld that the travel expenses paid to temporary workers by Reed Employment were subject to tax and NICs. This is a long running saga but indicates that travel and expenses payments to all temporary workers working through an agency are taxable. ■

TIP OF THE MONTH

Lots of taxpayers face penalties because they pay tax late. Sometimes the penalty is huge when tax was only a day late because penalties are set as fixed percentages of the tax paid late – they are not calculated like interest.

People try to pay 'on the day' or the afternoon before only to find that their bank has early cut off times for payments to other banks, or will not allow transfers over a certain amount. Check now – what are the cut off times for your account? It can be 3.30 pm. Also find out what are the limits on your internet banking transactions.

Dividends

There will be changes on the taxation of dividends from next year. How the new dividend tax will operate is still not entirely clear. The legislation has not been published and accountants are fuming because they cannot advise properly as yet.

Proposed changes: the key facts

- From April 2016, notional 10% tax credit on dividends will be abolished.
- A £5,000 tax free dividend allowance will be introduced.
- Dividends above this level will be taxed at 7.5% (basic rate), 32.5% (higher rate), and 38.1% (additional rate).
- Dividends received by pensions and ISAs will be unaffected. It is likely that dividends will remain non-deductible for corporation tax purposes.

The proposed changes are aimed at taxing small companies who pay a small salary designed to preserve entitlement to the State Pension, followed by a much larger dividend payment in order to reduce National Insurance costs.

Below is an example. If you pay yourself with dividends you may need to talk to your accountant.

How does this work?

2016/17 example: basic rate taxpayer

If you are a **basic rate taxpayer**, and you receive all your income in dividends **you will be up to £2,025 worse off.**

The basic rate tax threshold for 2016/17 is £43,000 (personal allowance of £11,000, plus basic rate tax band of £32,000)

If a dividend of £43,000 is received it is taxable as follows, breaking it down into the different "slices":

- The first £11,000 - covered by your personal allowance.
- The next £5,000 - covered by your dividend allowance.
- The next £27,000 (the remainder of your basic rate band) - taxed at the new 7.5% = **£2,025 total tax due.**

In the old regime the tax due would have been nil because it would have been covered by tax credits. ■

Summary of new measures for NIC

A number of changes have recently been implemented to National Insurance Contributions (NICs), with more coming next year. A short summary of each of these is provided below.

	Date effective
Employer's class 1 NICs abolished for employees under the age of 21 earning up to the Upper Secondary Threshold.	April 2015
All contracting out will be abolished and those in final salary schemes currently paying contracted out rates will need to pay non-contracted out rates. This will increase costs for employees and employers.	April 2016
RTI submissions will require actual Scheme Contracted Out Numbers (SCONs) or they will be rejected. A temporary number will no longer work.	April 2016
The employment allowance will increase from £2,000 to £3,000, but will be unavailable to companies where the only employees are directors.	April 2016
Employers will not have to pay NIC in respect of qualifying apprentices under 25 for earnings up to the Upper Earnings Limit.	April 2016
The thresholds for NI have changed for 2015/16: Lower Earnings Limit £112 (weekly), £486 (monthly) Primary Threshold £155 (weekly), £672 (monthly) Secondary Threshold £156 (weekly), £676 (monthly) Upper Accrual Point £770 (weekly), £3,337 (monthly) Upper Earnings Limit/ Secondary Threshold £815 (weekly), £3,532 (monthly)	April 2015

Reduced VAT rate for the supply of energy saving materials

There has been confusion here. The law remains as it was last year and the reduced rate has not been withdrawn. Changes will be implemented in the Finance Act 2016 and not before. ■

Rating

A recent case in the Supreme Court, **Woolway v Mazars**, will have significant implications from 2017 onwards if you occupy more than one floor of a building where each floor is capable of being separately let and you currently benefit from quatum. This is the reduction applied where two units are rated together as one unit. If this applies to you, you should seek specialist rating advice. ■

Termination payments: consultation

The government have published a consultation on employee termination payments. Two key simplifications that are likely to be made are:
 ■ **Removing the distinction between contractual and non-contractual payments.** This will mean payments will be taxed and subject to NIC in the same way, regardless of whether the payment was provided for in the contract or whether it is established practice for the employer to make such payments.
 ■ **Aligning the NIC treatment of payments with the income tax treatment.** The Government considers it illogical that a termination payment (such as a genuine ex gratia payment) can be subject to tax but not NIC. An example of this under the current rules would be a payment that is in excess of £30,000, but is not contractual or customary. ■

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

Tel: 020 8874 4335 or email liz@thetaxbridge.com