KLARMANS BUDGET REVIEW 2017/18

The Annual budget practically affects every single tax-payer and business operating in England and Wales. However a lot small businesses and business-owners are not as privy to what the Budget means, and how it may affect them.

So in this review, I will be outlining the main points of the Budget that affects individual tax-payers and small-business owners the most. Ranging from the self-employed to small company owners.

So let's start by a briefly reviewing of what is The Spring Budget. For each financial-year in the UK, which runs from 1st April to 31st March, the UK's HM Treasury announces the Annual Budget. This Budget basically outlines how the Treasury, through HM Revenue & Customs, will collect revenue through the various taxes. It also outlines how the Treasury aims to spend on the various public Services, for example, Transport, infrastructure, the National Health Services (NHS), Public Education, etc.

This year's budget, which is the Budget for the current 2017/18 tax year, was put in place by the current UK Chancellor, Philip Hammond. The Chancellor is the head of HM Treasury, and more or less, responsible for almost all economic and financial matters relating to the UK.

The current chancellor, Philip Hammond, took over from the previous chancellor, Liam Fox, in July 2016. This was at a similar time to when Theresa May took over from David Cameron as prime-minister. He comes from an extensive business background. Before entering politics, he was involved in manufacturing, healthcare and property development. Also has worked as a consultant to the World Bank, as well as an advisor to the government of Malawi. So, some would say, a deep and

diverse background for a position as a chancellor.

The Annual Budget addresses a variety of areas, ranging from; tax, business Issues, the economy, public borrowing & spending, pension and Savings, education and National Health. However, this article will focus on how the budgets affects individual tax payers and small businesses.

PERSONAL TAX;

Personal tax is a tax that practically affects all UK Tax-payers. However the tax benefits and incentives of working as a self-employed, compared to being employed, are well known, and have existed for several years now.
One of the main incentives of being self-employed was the savings in tax and National Insurance contributions.
However, NI Contributions, are one of the main sources of revenue for the Treasury. And the self-employed were costing the UK Treasury millions a year, by avoiding paying the National Insurance, they would have paid, if they were doing the same work, being employed.
However the Treasury now are quite keen on clamping down on this loop-hole altogether. Especially more so, that the self-employed are practically entitled to the same state and pension benefits the employees are.

So to close the gap in National Insurance, or NIC, contributions paid between employees and the self-employed, the UK's Treasury is starting by focusing on the Class-4 National Insurance contributions.

These are paid by self-employed workers, at the current rate of 9%, on all taxable self-employed profits above £8,060. But now, this is set to go up to 10% from April 2018, and then a further 11% from April 2019.

This gradual increase is set to raise an additional £145 million per year for the UK's Treasury.
The most affected by this will mostly be the self-employed contractors, doctors, lawyers, builders, plumbers, etc., who historically have always operated as self-employed. They will see their overall NI-liability increase by way of their self-assessment tax returns each year.

The only other change in the Budget relating to personal tax was that the Personal Tax-Free Allowance has now increased by another £500, to £11,500. This is set to further increase to a total of £12,500 by 2020.

BUSINESS TAX;

Compared to the other established economies of the world, i.e. the US, France, Italy, Germany, Japan, and Canada, which collectively make-up the G7, the UK has the lowest corporate or business-tax rate. Since 2011, this has been around 20%. But from this year, is set to be at 19%, and to go down to 17% by 2020.

The UK's Treasury has been losing a substantial amount of revenue due to tax-payer's setting-up and operating through their own limited companies, even though they fit the criteria of employees, that is, they work for one company, receive regular and more-or-less the same income each month, work from the same location, etc. Hence, should be treated as employees. Most of the loss in revenue is due to the scope available to avoid National Insurance Contributions when working as a limited company.

Through a limited company, you could more or less manage how much tax and National Insurance you would like to pay. The earning could be split, between the minimum monthly wage, and dividends. And as a tax-payer, an additional £5,000 tax-free allowance was available for any dividends taken from the company.
This £5,000 tax-break on dividends, made the limited-company option very attractive for tax purposes for obvious reasons. And, unlike being self-employed, where you will pay atleast Class-4 NIC, though a limited-company, you could avoid paying National Insurance altogether. This was costing the UK Treasury millions in lost revenue each year.
So to close-in on the dividend and NI loop-hope available to company directors, the UK's Treasury has announced a reduction in the dividend tax-free-allowance that was previously available,
From £5,000, to £2,000.

This reduction is mostly targeted at small business owners or directors, who were typically making the full-use of the £5,000 tax-free allowance on share dividends.
Another area the Treasury wants to focus on is the subjective treatment of capital and trading losses.

There has been a blurry line between what a capital loss is, and what a trading loss is. Trading losses provide immediate tax-relief for businesses, while capital losses provide relief over a period of time, usually more than a year or so.
However by companies claiming capital losses as trading losses, and hence, immediate tax-relief, has resulted in the UK's Treasury losing millions each year in revenue.

So to further clampdown on this avoidance scheme, the HMRC will start to clamp-down and scrutinise more carefully the tax returns and accounts companies

submit, to ensure the correct treatment of capital losses and trading losses.
This new austerity measure, will likely to generate an additional £820 million in revenue for the UK's Treasury.
Other taxes, such as VAT, and the National Insurance contributions paid by employees and employers is to remain the same for the 2017/18 Tax year.

BUSINESS RATES

Another important issue that emerged from the Chancellor's speech was that of business-rates. Business-rates is a tax that needs to be paid on the occupation of non-domestic, or commercial properties. It has been around for hundreds of years, but was made official in England around 1990. It's another tax used by the UK's Treasury, to further fund local government, like the local boroughs and councils.

Business-rates has somewhat been burdening small restaurants, café's, and shops all across the UK, for quite some time. With rates amount increasing almost each tax year, while businesses themselves suffering to stay afloat. Several small-business lobbyists and government officials have even suggesting abolishing business-rates altogether, as it is seen as a somewhat out-of-date, and unfair load on those small businesses already struggling to compete with the new digital vendors like Amazon, EBay, etc.

With property values soaring in London since the crash of 2008, the UK Government did a full overhaul and revaluation of the business-rates system last year. This now means businesses operating in and around areas where property prices have sharply risen, will see a corresponding increase in their annual business-rates bill. For example, some stores and shops based around central-London, will see their business-rates increase by as much as 415%.

This increase in business-rates based on increasing property-values, will most definitely discomfort those business struggling, yet operating in high-valued areas, for example, independently owned pubs and restaurants.

So to mitigate the blow to small businesses of the increase in business-rates, the UK's Treasury laid out *three* measures.

Businesses operating in high-valued properties, would see a corresponding increase in their rateable value. However the government has in place something called the "SBRR", or the Small Business Rates Relief system. The SBRR system basically provided small businesses a discount on their business-rates, provided their properties rateable-value was within the SBRR threshold.
However now those businesses that have seen their rateable-value increase due to soaring property-values, will be pushed out of the Small Business Rates Relief bracket, and pay business-rates at the full rate.
To cushion this blow to small businesses, the UK's Treasury is now going to cap the increase in rates to only £50/month for the current 2017/18 tax year.

Also, an additional further *transitional-relief-cap* will also be introduced, to further limit the increased business-rates payable by small businesses.

So, either the £50/month increase, or the transitional-relief-cap increase, whichever offers the small businesses the maximum relief, will be used when calculating their business-rates for the coming tax year.

This will obviously be of some help to small business-owners in the 2/3 year run-up to the actual full increase, and will provide somewhat of an adjusting period for small businesses.

The second measure to help small businesses with the increase in business rates is as follows.
Pubs, bars and restaurants have been a staple of UK's socio-economic backbone for decades. So ever since the latest business-rates overhaul was announced in September 2016, the pub and catering industry has been lobbying hard on how unfair the rates system is for them, and how the changes and sharp increase in their business-rates bill could threaten their survival.

So to somewhat hear the cries of the small pub and restaurant owners, the UK's Treasury has proposed an additional £1,000 discount on all business-rates bills for pubs with a rateable-value of £100,000 or less. This includes almost 90% of all pubs in the UK.

Whether this discount would do much to help small pubs and restaurant, probably not. But it does send the signal that Government is listening to small business.

As with the pubs and restaurants' issue, this is again a remedial action by the UK's Treasury, to fix the effects of the new business-rates system on small businesses for the current tax year.

So a fund of £300 million would be available to small businesses, through their local-councils, for help. How small businesses will have access to this fund, the criteria of what would be classified as "hard-hit" and how the fund will be distributed still remains unclear.

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