BUDGET 2018

Marc Bennett
Founding Director

Marc has over 25 years' experience growing the profitability & capital value of Owner Managed Businesses.

Chancellor Phillip Hammond presented his Autumn Budget on Monday 29th October. He skilfully avoided making the speech on the actual day of Halloween itself but was his famous Budget case full of horrors or a pre-election giveaway?

Marc Bennett of AEL Markhams, provides some insight on how the key budget measures may affect business owners.

Encouraging small businesses to invest

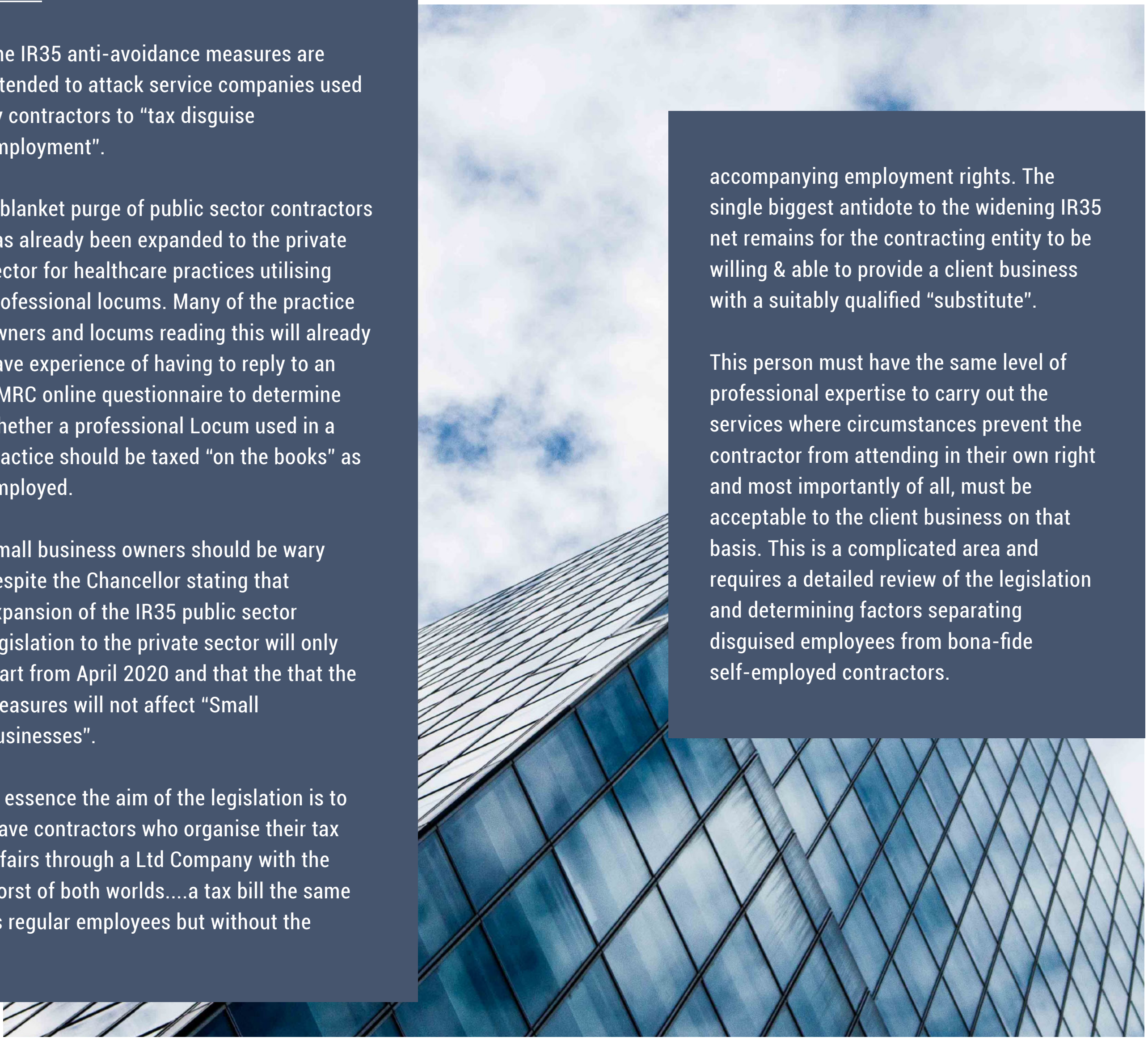
Many thought this form of company tax relief would be phased away but it's actually been given a new lease of life (apologies for the pun so early). The change results in small businesses being able to deduct from their taxable profits up to £1m of new investment per annum, a fivefold increase on the previous level; However this temporary increase will only last until 31st December 2020.

Income Tax

This certainly was good news for everyone as The Chancellor brought forward by 12 months an increase of £650 to the tax-free personal allowance. All taxpayers would therefore have an extra £130 in their pockets for the tax year starting from 6th April 2019. Additionally, there was an increase in the starting level of 40% higher rate tax to £50,000, worth an extra £730 to higher rate taxpayers. Taken together, anyone earning over £50,000 in the next tax year will have their income tax bill reduced by a total of £860, a tidy sum to remind your customers of when you're negotiating prices with them!

High Street Regeneration

During the Chancellors speech small high street retailers were told they would receive a 33.3% reduction in business rates for 2 years in an attempt to both regenerate the high street and stave off the online juggernaut. As always the devil is in the detail so we await the technical detail in the Chancellors Red Book to discover how this will work and to whom this benefit will affect. Early signs are that it will only apply to retail stores where the rateable value is less than £51,000. A simple ready reckoner would be to multiply the rateable value by 47.9% providing a maximum qualifying annual rates bill of £24,429.



IR35

The IR35 anti-avoidance measures are intended to attack service companies used by contractors to "tax disguise employment".

A blanket purge of public sector contractors has already been expanded to the private sector for healthcare practices utilising professional locums. Many of the practice owners and locums reading this will already have experience of having to reply to an HMRC online questionnaire to determine whether a professional Locum used in a practice should be taxed "on the books" as employed.

Small business owners should be wary despite the Chancellor stating that expansion of the IR35 public sector legislation to the private sector will only start from April 2020 and that the that the measures will not affect "Small Businesses".

In essence the aim of the legislation is to leave contractors who organise their tax affairs through a Ltd Company with the worst of both worlds....a tax bill the same as regular employees but without the accompanying employment rights. The single biggest antidote to the widening IR35 net remains for the contracting entity to be willing & able to provide a client business with a suitably qualified "substitute".

This person must have the same level of professional expertise to carry out the services where circumstances prevent the contractor from attending in their own right and most importantly of all, must be acceptable to the client business on that basis. This is a complicated area and requires a detailed review of the legislation and determining factors separating disguised employees from bona-fide self-employed contractors.

Entrepreneurs Relief

This tax relief affects both business owners and those employees with share options when a business or group is sold. The Chancellor has now made it tougher to qualify for the reduced capital gains tax rate of 10% that Entrepreneurs Relief ("ER") brings on the sale of shares in a qualifying business and 2 new conditions have been introduced:

a) the time period for holding an interest or qualifying shares in a business has increased to 2 years (previously 12 months) before the reduced rate of CGT applies; and

b) a minimum 5% qualifying interest in the Optical business will need to have been held throughout in order to halve the CGT when selling business interests.

VAT

No budget summary would be complete without a few words on VAT. The budget speech itself was relatively quiet on VAT and the major announcement was that the VAT registration threshold for new and existing businesses would remain at £85,000 per annum for the next 2 years.