



## **SUMMER BUDGET 2015 BRIEFING 8 JULY 2015**

Today's budget was probably the most significant since 1998 for small businesses including, in particular, contractors/freelancers/personal service company users (collectively "PSCs").

Our full budget newsletter will follow tomorrow, but here are the tax headlines for a typical Whitefield Client.

### **Employment Allowance**

This is a business wide exemption from Employers NI ("Ers"). Currently there is an allowance against the first £2,000 of Ers. Its now £3,000.

EG – currently if gross payroll is £100k and Ers is £10k, you only pay £8k to HMRC. Now its £7k.

However companies where the only employee is the sole director are now exempt. That's a typical PSC, although we wait to see if its as simple as engaging your partner/a family member on a nominal salary to work around this. However its not likely to be significant in most cases – if the directors salary is less than £8k (the NI threshold) its impact is £0, on a salary of £12k is £500 or so (the balance of the current £2k allowance would have been wasted).

Doubtless more will come out on this, but its not really a big issue.

### **IR35**

We are promised in the budget report:

*1.180 The government recognises that many individuals choose to work through their own limited company. However, where people would have been employees if they were providing their services directly, anti-avoidance legislation commonly known as IR35 introduced in 2000 requires that they pay broadly the same tax and National Insurance as other employees. As highlighted by reports from the Office of Tax Simplification and the House of Lords, it is clear that IR35 is not effective enough. Non-compliance in this area is estimated to cost over £400 million a year.*

*1.181 The government has asked HMRC to start a dialogue with business on how to improve the effectiveness of existing IR35 legislation. The government wants to find a solution that protects the Exchequer and improves fairness in the system.*

I had a separate email from HMRC which says:



# WHITEFIELD

*We wanted to contact you directly about one of the announcements today in the Budget on IR35 reform, which we thought would be of particular interest to you.*

*As you may know, IR35 legislation exists to ensure that those who work through intermediaries – usually Personal Service Companies – but who would have otherwise been direct employees, pay broadly the same amount of tax and NICs as direct employees.*

*As the Budget set out, we believe there is widespread non-compliance with the current rules and reform is needed to improve the effectiveness of the legislation. The Budget, therefore, announced the start of a dialogue between HMRC and stakeholders on the best way to reform IR35 legislation.*

*We intend to work with stakeholders over the coming months to develop potential options for reform and better understand the impacts of any change in this area. We will publish a document setting out a framework for discussions with stakeholders and the process for getting involved; we hope that you will want to be part of that discussion.*

Make of this what you will. The optimists will see a positive reform, the pessimists a coming storm. There's no word on the street as to what the Government's intentions are, so it's "watch this space".

It's worth remembering that for every professional using a PSC, there is a Polish car valet or Lithuanian builder having papers they don't understand being put in front of them and told "sign here". Whether the Government's aspirations are to shore up the bottom or go further, who knows.

## **TRAVEL EXPENSES FOR USERS OF EMPLOYMENT INTERMEDIARIES**

This has been bubbling for a while. The idea is to restrict travel and subsistence to users of PSCs and workers via Umbrellas and MSCs where they are "working under the supervision, direction or control of any person" (HMRC's words).

Although the wording is slightly different, the direction of travel is IR35 on expenses. Outside of IR35 there won't be much change, caught by IR35 there will be.

## **PENSION CHANGES**

We are promised a tapering of the Annual Allowance where income exceeds approximately £110k now and possibly a more fundamental reform later.

The Annual Allowance will be £40k on incomes up to £110k, tapering down to £10k at £150k



income. I doubt whether many of our clients will notice this, although it takes the shine off the current simplification of pension schemes and removal of the annuity requirement.

The Government are still sitting on a demographic time bomb – pension funds being withdrawn for Porsches or BTLs doesn't bode well for the long term - and they will probably kick anything more substantive into the long grass of the next parliament post 2020.

## **DIVIDEND TAX RATES AND CORPORATION TAX**

Undoubtedly this was the unexpected announcement. The budget report says:

### Corporation Tax

*1.239 The corporation tax rate will be cut to 19% in 2017 and 18% in 2020.*

### Dividends

*1.185 The current system of tax credits on dividends was designed over 40 years ago when corporation tax was more than 50% and the total tax bill on dividends for some was more than 80%. Since then, tax rates including corporation tax have fallen, leaving the Dividend Tax Credit as an arcane and complex feature of the tax system.*

*1.186 Alongside further cuts to corporation tax rates for all businesses, the government will reform and simplify the system of dividend taxation, while maintaining the extensive tax reliefs for investments held in ISAs and pensions. From April 2016 the government will remove the Dividend Tax Credit and replace it with a new tax-free Dividend Allowance of £5,000 a year for all taxpayers. This will ensure that ordinary investors with smaller portfolios and modest dividend income will see no change in their tax liability – and some will pay less tax.*

*1.188 The government will set the dividend tax rates at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers. While these rates remain below the main rates of income tax, those who receive significant dividend income – for example due to very large shareholdings (typically more than £140,000) or as a result of receiving significant dividends through a closed company – will pay more.*

What does this mean? Well, undoubtedly the current system is complex – dividends are paid out of profit after Corporation Tax, grossed up with a notional 10% tax credit and taxed at 10%, 32.5%, 37.5% for basic/higher/additional rate taxpayers – less the 10% credit so becoming 0%, 22.5% or 32.5%.

Now 0%, 22.5% or 32.5% becomes 7.5%, 32.5% and 38.1%, no credit, but a £5,000



exemption and the charge being on the lower net dividend rather than the grossed up dividend.

Eg at present – £1,000 profit in the company, CT at 20% £200, net dividend £800, grosses up to £889, tax at 10%, 32.5%, 37.5% less 10%.

new rules – £1,000 profit in the company, CT at 18% £180, net dividend £820, tax at 7.5%, 32.5% and 38.1% with a £5,000 exemption.

I've done some modelling on this in the appendix. In summary:

<b>SUMMARY - ONE SHAREHOLDER - FULL CT CUT</b>	£	£	£	£
Profit Level	30,000	70,000	200,000	250,000
Tax Current Regime	3,880	16,590	69,508	91,730
Tax New Regime - Full Corporation Tax Cut	4,310	18,181	76,243	100,864
Difference	430	1,590	6,735	9,134
Difference Percentage of Profit	1.43%	2.27%	3.37%	3.65%
Marginal Rate Current Regime	20.00%	40.00%	44.44%	44.44%
Marginal Rate New Regime	24.15%	44.65%	49.24%	49.24%
<b>SUMMARY - ONE SHAREHOLDER – NO CT CUT</b>	£	£	£	£
Profit Level	30,000	70,000	200,000	250,000
Tax Current Regime	3,880	16,590	69,508	91,730
Tax New Regime - No Corporation Tax Cut	4,669	18,983	78,783	103,828
Difference	789	2,392	9,275	12,097
Difference Percentage of Profit	2.63%	3.42%	4.64%	4.84%
Marginal Rate Current Regime	20.00%	40.00%	44.44%	44.44%
Marginal Rate New Regime	26.00%	46.00%	46.00%	50.48%

In summary both scenarios show increased tax, but it falls away once the Corporation Tax rate falls.

So on a £70k pre tax/salary profit, there is initially a rise of £2,392 in tax, falling to £1,590 once the associated CT cut is implemented.

Its perhaps not as bad as it looks, but there is no way to avoid concluding that all small companies have been targeted by this budget.



For two shareholders the figures are:

<b>SUMMARY - TWO SHAREHOLDERS - FULL CT CUT</b>	£	£	£	£
Profit Level	30,000	70,000	200,000	500,000
Tax Current Regime	3,880	11,880	61,421	188,172
Tax New Regime - Full Corporation Tax Cut	3,935	13,595	67,885	206,948
Difference	55	1,715	6,464	18,776
Difference Percentage of Profit	0.18%	2.45%	3.23%	3.76%
Marginal Rate Current Regime	20.00%	40.00%	44.44%	44.44%
Marginal Rate New Regime	24.15%	44.65%	44.65%	49.24%
 <b>SUMMARY - TWO SHAREHOLDERS - NO CT CUT</b>	 £	 £	 £	 £
Profit Level	30,000	70,000	200,000	500,000
Tax Current Regime	3,880	11,880	61,421	188,172
Tax New Regime - No Corporation Tax Cut	4,294	14,694	70,442	213,007
Difference	414	2,814	9,021	24,835
Difference Percentage of Profit	1.38%	4.02%	4.51%	4.97%
Marginal Rate Current Regime	20.00%	40.00%	44.44%	44.44%
Marginal Rate New Regime	26.00%	26.00%	46.00%	50.48%

So on £70k pre tax profit and a 50:50 shareholding split, initially a rise of £2,814 falling to £1,715 once the CT increase is implemented.

A few points here:

(a) we are still light on detail on how this works - we need to see the legislation. I've translated the budget report at face value.

(b) I've done a quick analysis without looking at allied changes in tax bands, the impact of spousal shareholdings, and the phasing of the changes (new dividend regime coming in before the CT rate falls).

(c) There will be planning opportunities around timing dividends, but its too early to speculate on this – we will bring forward more thoughts in coming months.

(d) On the face of it, incorporation of self employment, and the traditional low salary / high dividend structure are still preferred.



# WHITEFIELD

## CONCLUSIONS

This is a quick review of today's announcements. Its embryonic and E&OE (especially on the new dividend tax arrangements).

They say there are two certainties in life – death and taxes. The appeal to the Government is irresistible:

*2.51 Cremation facilities – The government will conduct a review into the size and provision of crematoria facilities to make sure they are fit for purpose and sensitive to the needs of all users and faiths. The government will also review cremation legislation and coroner services.*

And it could be worse. We could be Greek.

Even worse you could be a Greek Non Dom in London with a shipping line in Athens (not covered above, but Non Dom's took a hit today as well)

Jessica Garbett  
8 July 2015  
(revised 9 July 2015)



## APPENDIX – MODELLING ON DIVIDEND TAX CHANGES

This quick analysis doesn't look at allied changes in tax bands, the impact of spousal shareholdings, and the phasing of the changes (new dividend regime coming in on a phased basis. Its intended to look at the Corporation Tax rate and Dividend Tax rates in isolation.

### CURRENT POSITION - ONE SHAREHOLDER

			£	£	£	£
Corporate Profit	A		30,000	70,000	200,000	250,000
Salary			(10,600)	(10,600)	(10,600)	(10,600)
Subject to Corporation Tax			19,400	59,400	189,400	239,400
Corporation Tax	B		(3,880)	(11,880)	(37,880)	(47,880)
Profit after Corporation Tax			15,520	47,520	151,520	191,520
Net Dividend			15,520	47,520	151,520	191,520
Tax Credit			1,724	5,280	16,836	21,280
Gross Dividend			17,244	52,800	168,356	212,800
Tax Bands/Income Allocation	10.0%	31,865	17,244	31,865	31,865	31,865
	32.5%	118,135	-	20,935	118,135	118,135
	37.5%	balance	-	-	18,356	62,800
			17,244	52,800	168,356	212,800
Tax at 10%/32.5%/37.5%			1,724	9,990	48,464	65,130
Less Tax Credit			(1,724)	(5,280)	(16,836)	(21,280)
Net Due	C		-	4,710	31,628	43,850
Total Tax	B+C		3,880	16,590	69,508	91,730
Percentage of Profit	B+C/A		12.93%	23.70%	34.75%	36.69%
Marginal Rate on £1,000			20.00%	40.00%	44.44%	44.44%



# WHITEFIELD

## POST BUDGET - ONE SHAREHOLDER FULL CORPORATION TAX CUT

		£	£	£	£
Corporate Profit	A	30,000	70,000	200,000	250,000
Salary		(10,600)	(10,600)	(10,600)	(10,600)
Subject to Corporation Tax		19,400	59,400	189,400	239,400
Corporation Tax	B	(3,492)	(10,692)	(34,092)	(43,092)
Profit after Corporation Tax		15,908	48,708	155,308	196,308
Dividend		15,908	48,708	155,308	196,308

Tax Bands/Income Allocation						
0.0%	5,000	5,000	5,000	5,000	5,000	5,000
7.5%	26,865	10,908	26,865	26,865	26,865	26,865
32.5%	123,135	-	16,843	123,135	123,135	123,135
38.1%	balance	-	-	308	41,308	41,308
		15,908	48,708	155,308	196,308	196,308

Tax at 7.5%/32.5%/38.1%	C	818	7,489	42,151	57,772
-------------------------	---	-----	-------	--------	--------

Total Tax	B+C	4,310	18,181	76,243	100,864
Percentage of Profit	B+C/A	14.37%	25.97%	38.12%	40.35%
Marginal Rate on £1,000		24.15%	44.65%	49.24%	49.24%

## SUMMARY - ONE SHAREHOLDER - FULL CT CUT

	£	£	£	£
Profit Level	30,000	70,000	200,000	250,000
Tax Current Regime	3,880	16,590	69,508	91,730
Tax New Regime - Full Corporation Tax Cut	4,310	18,181	76,243	100,864
Difference	430	1,590	6,735	9,134
Difference Percentage of Profit	1.43%	2.27%	3.37%	3.65%
Marginal Rate Current Regime	20.00%	40.00%	44.44%	44.44%
Marginal Rate New Regime	24.15%	44.65%	49.24%	49.24%

Whitefield Tax Limited • Chartered Certified Accountants & Registered Auditor

The Annexe • Rowborough Manor • Beaper Shute • Brading • Isle of Wight • PO36 0AZ • Tel: 01983 614108  
Company number 4140568 • Director: Jessica Hart FCCA • [www.whitefieldtax.com](http://www.whitefieldtax.com) • [mail@whitefieldtax.com](mailto:mail@whitefieldtax.com)



# WHITEFIELD

## POST BUDGET - ONE SHAREHOLDER NO CORPORATION TAX CUT

		£	£	£	£
Corporate Profit	A	30,000	70,000	200,000	250,000
Salary		(10,600)	(10,600)	(10,600)	(10,600)
Subject to Corporation Tax		19,400	59,400	189,400	239,400
Corporation Tax	B	(3,880)	(11,880)	(37,880)	(47,880)
Profit after Corporation Tax		15,520	47,520	151,520	191,520
Dividend		15,520	47,520	151,520	191,520

Tax Bands/Income Allocation					
0.0%	5,000	5,000	5,000	5,000	5,000
7.5%	26,865	10,520	26,865	26,865	26,865
32.5%	123,135	-	15,655	119,655	123,135
38.1%	balance	-	-	-	36,520
		15,520	47,520	151,520	191,520

Tax at 7.5%/32.5%/38.1%	C	789	7,103	40,903	55,948
-------------------------	---	-----	-------	--------	--------

Total Tax	B+C	4,669	18,983	78,783	103,828
Percentage of Profit	B+C/A	15.56%	27.12%	39.39%	41.53%
Marginal Rate on £1,000		26.00%	46.00%	46.00%	50.48%

## SUMMARY - ONE SHAREHOLDER - NO CUT

	£	£	£	£
Profit Level	30,000	70,000	200,000	250,000
Tax Current Regime	3,880	16,590	69,508	91,730
Tax New Regime - No Corporation Tax Cut	4,669	18,983	78,783	103,828
Difference	789	2,392	9,275	12,097
Difference Percentage of Profit	2.63%	3.42%	4.64%	4.84%
Marginal Rate Current Regime	20.00%	40.00%	44.44%	44.44%
Marginal Rate New Regime	26.00%	46.00%	46.00%	50.48%

Whitefield Tax Limited • Chartered Certified Accountants & Registered Auditor

The Annexe • Rowborough Manor • Beaper Shute • Brading • Isle of Wight • PO36 0AZ • Tel: 01983 614108  
Company number 4140568 • Director: Jessica Hart FCCA • [www.whitefieldtax.com](http://www.whitefieldtax.com) • [mail@whitefieldtax.com](mailto:mail@whitefieldtax.com)



# WHITEFIELD

## CURRENT POSITION - TWO SHAREHOLDERS 50:50

		£	£	£	£
Corporate Profit	A	30,000	70,000	200,000	500,000
Salary		(10,600)	(10,600)	(10,600)	(10,600)
Subject to Corporation Tax		19,400	59,400	189,400	489,400
Corporation Tax	B	(3,880)	(11,880)	(37,880)	(97,880)
Profit after Corporation Tax		15,520	47,520	151,520	391,520
Net Dividend		7,760	23,760	75,760	195,760
Tax Credit		862	2,640	8,418	21,751
Gross Dividend		8,622	26,400	84,178	217,511
Tax Bands/Income Allocation	10.0%	31,865	8,622	26,400	31,865
	32.5%	118,135	-	-	52,313
	37.5%	balance	-	-	67,511
			8,622	26,400	84,178
Tax at 10%/32.5%/37.5%		862	2,640	20,188	66,897
Less Tax Credit		(862)	(2,640)	(8,418)	(21,751)
Net Due	C	-	-	11,770	45,146
Total Tax	B+Cx2	3,880	11,880	61,421	188,172
Percentage of Profit	B+C/A	12.93%	16.97%	30.71%	37.63%
Marginal Rate on £1,000		20.00%	40.00%	44.44%	44.44%

Whitefield Tax Limited • Chartered Certified Accountants & Registered Auditor

The Annexe • Rowborough Manor • Beaper Shute • Brading • Isle of Wight • PO36 0AZ • Tel: 01983 614108  
 Company number 4140568 • Director: Jessica Hart FCCA • [www.whitefieldtax.com](http://www.whitefieldtax.com) • [mail@whitefieldtax.com](mailto:mail@whitefieldtax.com)



# WHITEFIELD

## POST BUDGET - TWO SHAREHOLDERS 50:50 FULL CORPORATION TAX CUT

		£	£	£	£
Corporate Profit	A	30,000	70,000	200,000	500,000
Salary		(10,600)	(10,600)	(10,600)	(10,600)
Subject to Corporation Tax		19,400	59,400	189,400	489,400
Corporation Tax	B	(3,492)	(10,692)	(34,092)	(88,092)
Profit after Corporation Tax		15,908	48,708	155,308	401,308

Dividend		7,954	24,354	77,654	200,654
----------	--	-------	--------	--------	---------

Tax Bands/Income Allocation	0.0%	5,000	5,000	5,000	5,000	5,000
	7.5%	26,865	2,954	19,354	26,865	26,865
	32.5%	123,135	-	-	45,789	123,135
	38.1%	balance	-	-	-	45,654
			7,954	24,354	77,654	200,654

Tax at 7.5%/32.5%/38.1%	C	222	1,452	16,896	59,428
-------------------------	---	-----	-------	--------	--------

Total Tax	B+Cx2	3,935	13,595	67,885	206,948
Percentage of Profit	B+C/A	13.12%	19.42%	33.94%	41.39%
Marginal Rate on £1,000		24.15%	44.65%	44.65%	49.24%

## SUMMARY - TWO SHAREHOLDERS - FULL CT CUT

	£	£	£	£
Profit Level	30,000	70,000	200,000	500,000
Tax Current Regime	3,880	11,880	61,421	188,172
Tax New Regime - Full Corporation Tax Cut	3,935	13,595	67,885	206,948
Difference	55	1,715	6,464	18,776
Difference Percentage of Profit	0.18%	2.45%	3.23%	3.76%
Marginal Rate Current Regime	20.00%	40.00%	44.44%	44.44%
Marginal Rate New Regime	24.15%	44.65%	44.65%	49.24%

Whitefield Tax Limited • Chartered Certified Accountants & Registered Auditor

The Annexe • Rowborough Manor • Beaper Shute • Brading • Isle of Wight • PO36 0AZ • Tel: 01983 614108  
Company number 4140568 • Director: Jessica Hart FCCA • [www.whitefieldtax.com](http://www.whitefieldtax.com) • [mail@whitefieldtax.com](mailto:mail@whitefieldtax.com)



# WHITEFIELD

**POST BUDGET - TWO SHAREHOLDERS 50:50  
NO CORPORATION TAX CUT**

		£	£	£	£
Corporate Profit	A	30,000	70,000	200,000	500,000
Salary		(10,600)	(10,600)	(10,600)	(10,600)
Subject to Corporation Tax		19,400	59,400	189,400	489,400
Corporation Tax	B	(3,880)	(11,880)	(37,880)	(97,880)
Profit after Corporation Tax		15,520	47,520	151,520	391,520
Dividend		7,760	23,760	75,760	195,760
Tax Bands/Income Allocation	0.0% 5,000	5,000	5,000	5,000	5,000
	7.5% 26,865	2,760	18,760	26,865	26,865
	32.5% 123,135	-	-	43,895	123,135
	38.1% balance	-	-	-	40,760
		7,760	23,760	75,760	195,760
Tax at 7.5%/32.5%/38.1%	C	207	1,407	16,281	57,563
Total Tax	B+Cx2	4,294	14,694	70,442	213,007
Percentage of Profit	B+C/A	14.31%	20.99%	35.22%	42.60%
Marginal Rate on £1,000		26.00%	26.00%	46.00%	50.48%

**SUMMARY - TWO SHAREHOLDERS - NO CT CUT**

	£	£	£	£
Profit Level	30,000	70,000	200,000	500,000
Tax Current Regime	3,880	11,880	61,421	188,172
Tax New Regime - No Corporation Tax Cut	4,294	14,694	70,442	213,007
Difference	414	2,814	9,021	24,835
Difference Percentage of Profit	1.38%	4.02%	4.51%	4.97%
Marginal Rate Current Regime	20.00%	40.00%	44.44%	44.44%
Marginal Rate New Regime	26.00%	26.00%	46.00%	50.48%

Whitefield Tax Limited • Chartered Certified Accountants & Registered Auditor

The Annexe • Rowborough Manor • Beaper Shute • Brading • Isle of Wight • PO36 0AZ • Tel: 01983 614108  
Company number 4140568 • Director: Jessica Hart FCCA • [www.whitefieldtax.com](http://www.whitefieldtax.com) • [mail@whitefieldtax.com](mailto:mail@whitefieldtax.com)