



## Tax-free childcare: how does it work?

**The government's new tax-free childcare scheme was finally launched this April – after a legal challenge resulting in a delay of over a year.**

Initially, it will only apply if you have a child under four on 31 August. The scheme can, however, be used for all of your children once one child becomes eligible. For other parents, the scheme will be rolled out throughout 2017.

### Who is it for?

Tax-free childcare is available for working parents, including the self-employed, with children aged under 12 (under 17 if they are disabled). For every £8 the parent pays in, the government will automatically add a further £2, so parents effectively get basic rate tax relief for childcare costs. Parents can use the scheme to pay for up to £10,000 of annual childcare costs for each child, with a potential saving of some £2,000 – and the amounts are doubled for disabled children. Your tax-free childcare account can be used to pay for childcare such as nurseries, nannies, childminders and out-of-hours school clubs. Crucially, the childcare provider must also be signed up with the tax-free childcare scheme.

Both parents need to be working, with average earnings equal to at least 16 hours at the national minimum/living wage. Parents are not eligible for tax-free childcare if either partner expects to earn £100,000 or more a year, and you cannot use tax-free childcare at the same time as childcare vouchers – so you may need to choose between the two schemes.

Parents should obviously remain in a voucher scheme even if they don't qualify for tax-free childcare – for example, because only one parent works, earnings are not sufficient or earnings exceed £100,000. Also, the voucher scheme is available for children aged up to 15, rather than under 12. Tax-free childcare wins out for the self-employed, who cannot benefit from childcare vouchers, and others whose employer does not offer them.

Unlike childcare vouchers, the help available under the tax-free childcare scheme increases with the number of children. Parents should therefore be better off opting for tax-free childcare if they have more than one child and high childcare costs. For others, the decision is more complicated and will depend on your tax position and amount of childcare costs.

## VAT flat rate – is it still worth it?

**Changes to the VAT flat rate scheme mean some small businesses should reassess whether to be in the scheme. The scheme simplifies the way in which small businesses calculate their VAT liability, and it can also result in VAT savings.**

Under the flat rate scheme, VAT is calculated by applying a flat rate percentage to the VAT-inclusive turnover and most input VAT on purchases is ignored. However, from 1 April a flat rate of 16.5% has been introduced for 'limited cost businesses' (LCBs).

With the normal basis, a business would pay VAT of £200 on turnover of £1,000. A flat rate of 16.5% results in a liability of £198 (£1,200 at 16.5%) – virtually the same. For an LCB with even a modest amount of input VAT, the flat rate scheme is no longer attractive.

You are classed as an LCB if the amount of goods you purchase are less than either 2% of your turnover or £1,000 a year (£250 a quarter). Unfortunately, only goods count, and these must be used exclusively for business purposes. There are numerous exclusions.

### Defining your business

You have to determine your LCB classification for each quarterly or annual VAT period. So if your turnover or goods purchased fluctuate, you could find yourself alternating between the 16.5% rate and your normal trade percentage. If you are permanently classed as an LCB, you will probably want to leave the flat rate scheme.

You can still continue to use the cash accounting and annual accounting schemes even if the flat rate scheme is no longer beneficial for you. This is particularly useful if you give credit to customers, because VAT is not accounted for until you receive payment. You do not have to pay VAT on bad debts. There are various qualifying conditions, but generally your turnover must not exceed £1.35 million and you must be up to date with your VAT returns and payments. We are here to advise you.

## Who really controls companies?

**It's now simple for anyone to find out who really owns and controls a private company.**

Since 2016, all UK unlisted companies and limited liability partnerships have had to keep a register of persons with significant control (PSCs) and include that information on their annual confirmation statement. Unregistered companies and some listed companies have to do this from 26 June 2017, as do most Scottish partnerships with some modifications. Also from 26 June 2017, companies and LLPs have to update their PSC register within 14 days of any change, and tell Companies House within a further 14 days.

Identifying a company's PSCs is often straightforward: any individual who owns more than 25% of the shares and/or voting rights, or has the right to appoint or remove the majority of the directors. But it also includes any other individual who has the right to exercise or actually does exercise significant influence or control over the company.

Some companies have several PSCs; others may have none. A company that has no PSCs must still keep a PSC register. Companies must take all reasonable steps to identify its PSCs and contact them to obtain all the required personal details. PSCs commit a criminal offence if they do not provide this information, and most of it will appear on the public register. Please contact us to help you meet the requirements for your business.

## Capital allowance thresholds reducing for cars

**You can currently claim a 100% first year allowance if you purchase a new car with CO<sub>2</sub> of 7g/km or less.**

An 18% writing down allowance is available for cars with CO<sub>2</sub> emissions between 76 and 130g/km, with higher emission cars qualifying for an 8% allowance. The threshold for disallowing a proportion of leasing costs for leased cars is also 130g/km. These thresholds are to be reduced to 50 and 110g/km from 1 April 2018. On a brighter note, the availability of the 100% first year allowance itself has been extended to 31 March 2021.

## It can hurt at the margin

**The 45% additional tax rate doesn't kick in until your income exceeds £150,000, but you could find yourself paying an even higher marginal rate of tax at a lower income level.**

Take the personal savings allowance. This is £1,000 if you are a basic rate taxpayer, but the allowance is halved if you have just a pound or two of higher rate income – losing maybe £100 of tax relief and resulting in a marginal tax rate of anything up to 10,000%.

Where your income is between £50,000 and £60,000, you might be in the position of having a child benefit claim tapered away. With three children, child benefit is £2,501 a year. For each £1,000 of income between £50,000 and £60,000, you will lose £250 of benefit. Add in 40% higher rate tax and maybe 2% of NICs, and you have an effective marginal rate of 67%.



### Time for tax planning

The effective marginal rate of income tax is 60% if your personal allowance is withdrawn because your income is between £100,000 and £123,000. At this level of income, you will probably want to consider some form of tax planning, especially if you have advance knowledge of your income level. You might consider a pension contribution. If aged 55 or over, you could immediately take back 25% tax free, so the effective net of tax cost for the remaining £750 invested from a £1,000 gross contribution would be just £150.

Please get in touch to discuss your situation.

## Pension auto-enrolment update

**The pension auto-enrolment thresholds for 2017/18 have increased in line with national insurance contributions, although the auto-enrolment level itself is unchanged.**

	Annual	Monthly	Weekly
Right to opt in	£5,876	£490	£113
Auto-enrolment	£10,000	£833	£192
Upper level	£45,000	£3,750	£866

Staff with annual earnings between £5,876 and £10,000 are not auto-enrolled, but can choose to opt in. Where annual earnings are over £10,000, staff aged between 22 and state pension age must be auto-enrolled into a pension scheme – with staff outside of this age range able to opt in. For auto-enrolled staff and staff who have opted in, pension contributions must be paid on annual earnings between £5,876 and the upper level of £45,000.

The total minimum contribution is currently 2% of earnings, with a 1% minimum for employer contributions. But from 6 April 2018 the total minimum contributions will increase to 5%, with a 2% minimum for employers. The difference between the amount of employer contribution and the total minimum contribution is made up by staff contributions.

Of course, both the employer and staff can contribute greater percentages if they wish, and higher employer contributions will reduce the shortfall that needs to be covered by staff contributions. If you need any help with this, then please get in touch with us.