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Chancellor freezes VAT threshold until 2020

Small businesses breathed a collective sigh of relief when chancellor Philip Hammond resisted calls to lower the VAT registration threshold in Autumn Budget 2017.

The Office of Tax Simplification (OTS) made eight core recommendations for the government to clarify the VAT system ahead of the chancellor's speech on 22 November 2017.

It called the current VAT registration threshold of £85,000 the most pressing issue in its Routes to Simplification report.

The report claimed the UK registration threshold is the highest in the EU and £70,000 higher than the average VAT exemption around the world, which stands at £15,000.

While the UK registration threshold enables many small businesses to stay out of the VAT system, the OTS claimed recent increases could be costing the economy more than £2 billion a year.

But the chancellor decided to freeze VAT thresholds for two years in a move that was welcomed by the Federation of Small Businesses (FSB).

Mike Cherry, chairman of the FSB, said:

"It was good to see the chancellor's speech acknowledge our concerns about the VAT threshold.

"Dragging thousands more small firms into the hugely complex VAT regime would have caused a significant drag on output at an already challenging time for businesses.

"Small firms spend more than a working week a year complying with VAT obligations on average. It's time that should be spent growing their firms."

Treasury delays abolishment of class 2 national insurance

Chancellor Philip Hammond has delayed the decision to abolish class 2 national insurance contributions (NICs) by 12 months.

The policy, which was first announced by Hammond's predecessor George Osborne in 2016, would have seen class 2 NICs incorporated in reformed class 4 NICs from April 2018.

Self-employed workers earning less than £6,025 in 2017/18 can protect their state entitlements, including the state pension, by paying voluntary class 2 NICs at a flat rate of £2.85 a week.

The changes, which form the basis of the National Insurance Contributions Bill, will not come into force until April 2019.

Andrew Jones, exchequer secretary to the Treasury, said:

"The government has decided to implement a one-year delay to allow time to engage with invested parties on the abolishment of class 2 NICs on self-employed individuals with low profits.

"The government is committed to abolishing class 2 NICs to simplify the system, so it is right to take time to ensure there are no unintended consequences for the self-employed."

Anne Fairpo, chairperson of the Low Incomes Tax Reform Group, added:

"The abolition of class 2 NICs will be a significant change to how people contribute to qualify for certain benefits and the state pension.

"We welcome the breathing space on this because of our concerns the abolition of class 2 was being rushed through without adequate consultation, together with a lack of guidance for the people affected."

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Claims for R&D tax credits hit record high

Research and development (R&D) tax credit claims by small businesses climbed to £1.345 billion in 2015/16, according to HMRC.

The revenue recently released R&D data for the previous financial year that shows claims increased from £1 billion in 2014/15 to hit another record high last year.

The total number of claims for R&D credits in 2015/16 also rose to 26,225, with SMEs accounting for 21,865 of that figure – up 22% on 2014/15.

R&D tax relief enables businesses carrying out qualifying R&D in their sector to claim an extra corporation tax deduction for certain qualifying expenditure.

This was the most common way for SMEs to claim R&D tax credits in 2015/16, with 12,700 claims made by small firms attempting to reduce their corporation tax liability.

The level of relief available depends on which scheme a business uses.

The relief a small business can get increased to 230% on their qualifying R&D costs under the SME scheme in April 2015.

Larger companies can take advantage of the Research and Development Expenditure Credit (RDEC) scheme, which offers a taxable credit at 11% of qualifying R&D expenditure (rising to 12% from 1 January 2018).

Since the requirement for a minimum R&D expenditure of £10,000 was removed, more businesses meet the criteria to apply for the relief.

Mel Stride, financial secretary to the Treasury, said:

“From manufacturers to scientists, Britain’s brilliant entrepreneurs are leading the way in technology and innovation.

“We will continue to support these businesses so they can promote growth across the country and compete in the global economy.”

 *Our team of experts can advise on R&D.*

Autumn Budget 2017 round-up

A range of measures designed to boost business and productivity were announced in Autumn Budget 2017.

Amid a background of discontent surrounding **business rates**, chancellor Philip Hammond revealed future increases will be determined by the Consumer Prices Index measure of inflation from April 2018.

The measure comes into effect two years earlier than originally planned and will replace the Retail Prices Index, which determined the controversial 3.9% rise announced in October 2017.

Dr Adam Marshall, director-general at the British Chambers of Commerce, said:

“While more remains to be done to reduce the impact of business rates on investment and growth, the chancellor’s decisions will lessen the impact of rate rises on hard-pressed firms.”

Corporation tax remains at 19% and is on track to be lowered to 17% by 2020, while the **VAT** thresholds remain unchanged for the next two years.

Hammond also pledged to invest a further £2.3 billion into **R&D**, which sees an increase to its main tax credit – the Research and Development Expenditure Credit (RDEC) that applies to larger companies – from 1 January 2018.

Investment limits for **enterprise investment schemes** will be doubled – from £1 million to £2 million – from April 2018 for knowledge-intensive companies only.

Employers will need to keep an eye on rises to the **national living wage** – up 4.4% from £7.50 an hour in 2017/18 to £7.83 an hour for those aged over 25 in 2018/19.

The **national minimum wage** rates will also increase for under-25s as follows:

- apprentices: £3.70 per hour
- 16 and 17-year-olds: £4.20 per hour
- 18 to 20-year-olds: £5.90 per hour
- 21 to 24-year-olds: £7.38 per hour.

The tax-free **personal allowance** increases by £350 a year – up from £11,500 in 2017/18 to £11,850, while the higher-rate threshold rises from £45,000 to £46,350 from 6 April 2018.

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