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Introduction

This eBook is intended as a general tax planning guide for UK based limited company freelancers and contractors in relation to the 17/18 tax year.

It assumes the directors and shareholders are UK residents living in the UK full time, running their business from the UK.

The book has been written by JF Financial Management Limited, a small accounting practice that specialises in working with freelancers, contractors and small businesses, for more information please visit: http://jf-financial.co.uk/

Key changes 2017/18 vs 2016/17

The key changes for 17/18 compared to 16/17 are listed below, these are covered in this eBook:

- IR35 – new rules for those working in the public sector
- VAT Flat Rate Scheme – new 'limited cost trader' category means many freelancers and contractors will be better off leaving the flat rate scheme
- Tax rates:
    - Personal allowance increases from £11,000 to £11,500
    - Higher tax band increases from £43,000 to £45,000 (apart from Scottish resident tax payers, for whom it remains at £43,000)
    - Corporation tax reduces from 20% to 19%
- New mortgage interest relief restrictions will affect 'use of home as office' claims
- Tax free childcare, new scheme for 17/18

How dividend taxation works from the 16/17 tax year onwards (from 6th April 2016)

The dividend tax credit has been scrapped which makes it easier to understand in our view.

A new dividend allowance has been introduced which means that an individual's first £5,000 of dividends in the tax year are tax free (please note that the dividend allowance has been proposed to reduce to £2,000 from the 18/19 tax year, but for 17/18 it remains at £5,000)

- Over and above this £5,000 the dividend income is taxed as follows:
- If you have any un-used personal allowance (£11,500 for 17/18) then that element is tax free
- Any dividends in the basic tax band (up to £45,000 for 17/18) attract a tax charge of 7.5%
- Dividends above the basic tax band are charged at 32.5%
- A higher rate of 38.1% will apply at the upper tax band (£150,000+ for 17/18)

Please note that for 17/18 Scottish resident tax payers have a slightly lower higher tax band of £43,000, compared to £45,000 for the rest of the UK.

We are assuming in this book that you have a standard personal allowance, which for 17/18 is £11,500

Example of dividend tax calculation for 17/18

Here is a simple example of how the dividend tax works for 17/18 – let's assume that the person earns £8,000 of salary and £20,000 of dividends from their company, with no other sources of income.

The £8,000 of salary is tax free as it is within their personal allowance of £11,500.

This leaves £3,500 of personal allowance to be applied to the dividends, so the first £3,500 of dividends is tax free.

The next £5,000 of dividends is also tax free under the dividend allowance.

This leaves the balance of dividends, £11,500, to be taxed at 7.5% which is £862.50 of personal tax.

Travel

HMRC brought in new rules for 16/17 for travel and subsistence which continue to apply in 17/18. They have said that if you are under the 'supervision, direction or control' (SDC) of a client then you cannot claim travel and subsistence costs.

In reality this will only apply if you are caught by IR35 (see earlier section in book). Assuming you are not caught by IR35, read on….

Understanding what travel expenses can be claimed from your limited company can be a little tricky - the key is that there is a difference between a temporary workplace and a permanent workplace.

Travel to a permanent workplace cannot be claimed as this is seen by HMRC to be ordinary commuting, whereas travel to a temporary workplace can be claimed.

What is a temporary workplace?

There are two key concepts to understand here - the 24 month rule and the 40% rule.

The 24 month rule

As long as you are not working in a location for 24 months or longer the location will be considered to be a temporary workplace, therefore travel can be claimed.

However, if you sign a contract that means you know you will be in the same location for more than 24 months then you cannot claim travel from that point. It is the point at which you know you will be there 24 months or longer at which the location changes from being a temporary workplace to a permanent one.

If for example you sign a contract now for 12 months and then 10 months into the contract you sign an extension for 18 months, then the location would change to being a permanent workplace 10 months in so you could only claim the first 10 months travel.

The 40% rule

Even if you do breach the 24 month test, there is still a chance to claim some of your travel costs if the location represents less than 40% of your overall business working time. Below 40% and it will still be considered a temporary workplace. You need to assess the previous 24 months on a rolling 24 month basis all the time to see if the 40% rule has been breached at any point.

Once it is breached you have to stop claiming your travel, however keep your eye on the rolling 24 months position each month as you may dip under the 40% again, at which point you can start claiming your travel again.

What about if you work on contracts in similar areas?

This is where things get a bit more complicated. If you work with Client A in Location A for 15 months and then move to a new contract with Client B in Location B for 12 months, location A and B must be in different locations otherwise they could seen to be in the same 'patch' by HMRC.

Childcare vouchers & tax free childcare

Your company is able to either give you childcare vouchers or can pay for childcare directly to the childcare provider.

The direct option is usually best for contractors and freelancers as this will be cheaper as you don't have to pay for the charges of the childcare voucher scheme, however you will need to discuss with your childcare provider to ensure they are happy invoicing your company directly.

Although there is no limit from your company's perspective, there are limits for you personally if you don't want to pay tax and national insurance on the costs.

If your company started paying for your childcare before 5th April 2011 then the limit is £243 per month.

If your company started paying for your childcare after 5th April 2011 then as long as you are a basic rate tax payer the limit is still £243 per month. If, however, you're a higher rate tax payer, the limit is £124 per month, and if you're an upper rate tax payer the limit is £110 a month.

Some further details to be aware of:

- The childcare has to be provided by a child carer who is registered / approved
- The childcare cannot be provided by a relative in the child's home (or outside the child's home if the child is the only child the relative is looking after)
- The tax free levels outlined are per employee / director (not per child)
- The child care scheme has to be available to all employees / directors of your company

New – tax free childcare from 17/18

From April 2017 there is another new option which can be considered instead of the above, which is 'tax free childcare'. This new scheme will start to be rolled out over the course of 17/18.

If you choose the new option of tax free childcare, you cannot use the old method of childcare vouchers / directly contracted childcare which was covered in the previous section.

Tax free childcare works as follows:

- Parents will be able to open a new childcare account - the government will begin writing to parents inviting them to apply, this will start with parents of the youngest children first
- For every £8 a parent pays into their childcare account, the government will pay in an extra £2
- To qualify, parents will have to be in work, and each earning at least £115 a week and not more than £100,000 each per year
- Parents can get up to £2,000 of government support per child per year (or £4,000 for disabled children) towards their childcare costs which they can then use to pay their childcare provider, as long as the childcare provider is signed up to Tax-Free Childcare
- The scheme will be available for children up to the age of 12 and will also be available for children with disabilities up to the age of 17