

SMEs and the Spring Budget: the UK200Group Verdict

Submitted by: The UK200Group

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Chancellor of the Exchequer Philip Hammond announced his Spring Budget to Parliament on Wednesday 8 March, the wider implications of which are sure to affect SMEs across the UK. But will those changes be beneficial or detrimental to conditions for the UK's owner-managed businesses?

The UK200Group (<http://www.uk200group.co.uk/>) is the UK's leading membership association of chartered accountancy and law firms, whose members act as trusted business advisers to over 150,000 SMEs. A number of the UK200Group's members have given their initial views of the Autumn Statement's impact on the SME community.

John Painter, Managing Partner at CB Chartered Accountants (<https://www.cbcharteredaccountants.com/>) and Chair of the UK200Group's Property and Construction Group, said, "I am pleased to hear of the £435million fund to help small businesses and I hope that the local authorities use their share for discretionary relief wisely to help the small businesses in the town and city centres that are being badly affected by the changes.

"My fear is that it will be used to attract investment in out of town sites rather than maintain the level playing field."

Alan Boby, Tax Partner at UK200Group member firm Ellacotts LLP (<http://www.ellacotts.co.uk/>) and member of the UK200Group's Tax Panel, said, "The Chancellor's Budget announcements only made the choice of business structure more difficult. Despite the fact that he said he wants to support entrepreneurs, he has increased the national insurance costs for the self-employed and increased dividend taxes for those who own a company. The factors affecting whether to be self-employed or to set up a company have now become even more complicated.

"Although these tax changes are not due to come in until April 2018, SMEs want to plan ahead and need certainty for the future. It is now important than ever for SMEs to seek specialist tax advice when deciding which business vehicle to use."

Andrew Jackson, Chair of the UK200Group Tax Panel and Head of Tax at UK200Group member Fiander Tovell (<https://www.fiandertovell.co.uk/>), said, "The deferral of Making Tax Digital for smaller businesses is extremely welcome, as those are the people who are going to have most trouble with it. It should now be possible for MTD to be piloted by the larger firms, giving more time for HMRC to iron out the inevitable teething problems and for accountants to understand the system and help taxpayers through it.

"However, it is very concerning that we are still not getting any clarity on the detail. The consultation exercise finished four months ago and we still have no answers to vital questions, like 'Who is digitally excluded?', 'How does the system interact with Self-Assessment?', 'How much can my agent do to help me?' - and even 'What information do I need to report?'

"There is just over a year before MTD comes into force, but we still aren't in a position to start preparing for it."

James Abbott, President of the UK200Group and Director at Abbott Moore (<http://www.abbottmoore.co.uk/>), said, "The increased tax on dividends was justified last year on the basis of starting to level the tax 'playing field' between a business owner trading as limited company or as a self-employed person. I had sympathy with that logic. However, with the intended increase on national insurance for the self-employed, I believe the gap has widened once again and in time, the rate of tax on dividends will increase further to match.

"On yesterday's evidence, the Chancellor clearly believes that there is a greater tax take to be had from ordinary business owners and SMEs in particular. I acknowledge that the Government may need to raise tax revenues, but I do worry that the increasing burdens being put on the nation's businesses through Making Tax Digital – combined with steadily reducing tax incentives for those boldly choosing to take on the inherent risks in running a business compared to being an employee – may result in a change of behaviour away from entrepreneurship."

Lorna Sizer, Senior Manager of Personal Tax at UK200Group member Knill James (<https://www.knilljames.co.uk/>), said, "The increase in the National Insurance contributions for the self-employed announced yesterday is not a great surprise, given the 3% differential between the rate of contributions paid by employees and the self-employed. The Chancellor has softened the blow, by delaying the first 1% increase until April 2018 when the Class 2 contributions paid by the self-employed will be abolished, as a result the additional cost in the first year will be under £200 followed by a further increase of up to £350 the following year.

"Philip Hammond's attack on the self-employed seems to overlook the loss of employment rights that the individuals have to accept and the additional risks taken by them as part of running their own business, neither of which affect employees.

"The dividend allowance has been with us for less than a year and it is already being tinkered with. Currently dividends of £5,000 can be received tax free but this allowance is going to reduce to £2,000 from April 2018, increasing the tax bill on dividends by up to £1,143 each year. Alongside the 7.5% increase in the tax rates on dividends which was introduced last April, the tax saving by receiving dividend income will be eroded still further.

"Whilst this affects owner of shares, it is those running their own business through a Limited Company who will feel the pinch the most. Other investors have the opportunity to use ISAs to hold their investments and so not have to pay income tax on any of the dividend income."

The UK200Group (<http://www.uk200group.co.uk/>), established in 1986, represents a significant group of trusted, quality-assured business advisers – chartered accountants and lawyers – who have over 150,000 SME clients in total. As such, the UK200Group acts as the voice for 1,899 charities, over 12% of all registered academies, more than 3,887 farms, 800 healthcare businesses and over 4,000 property and construction professionals. The organisation remains impartial on political matters, and presents the individual views of its members.

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About the UK200Group:

The UK200Group was formed in 1986, and is the UK's leading association of independent chartered accountancy and law firms, with connections around the world.

The association brings together around 150 member offices in the UK with more than 500 partners who serve roughly 150,000 business clients. Its international links in nearly 70 countries give its members access to expertise across the globe.

The UK200Group aims to present a wide variety of views from its member firms, but itself remains impartial and unbiased in political matters.