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SPECIALIST ACCOUNTING SERVICES

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Apprenticeships fall 31% in the last academic year

The number of people starting apprenticeships has dropped by 31% in the last 12 months, the Department for Education has claimed.

In the academic year between August 2017 and May 2018 there were 315,900 apprenticeship starts, compared to 457,200 the same time the year before.

Business groups including the British Chambers of Commerce (BCC) and the Institute of Directors (IoD) argue the apprenticeship levy creates barriers for employers who hire apprentices.

Employers with an annual pay bill of over £3 million are required to pay the apprenticeship levy, and receive an allowance of £15,000 to offset against it.

Smaller businesses that do not pay the levy are required to pay 10% of the cost of training an apprentice, with the Government covering the remaining 90% up to a funding band maximum.

Jane Gratton, head of business skills at the BCC, said this "has significantly increased the cost of recruiting and training apprentices" for smaller firms, on top of other employment costs.

Edwin Morgan, director of policy at the IoD, said:

"Firms are not against the levy in principle. Government has been talking to businesses about where the obstacles are in the system, but it's now time for action to get the system back on track.

"When skills shortages are one of the biggest issues facing the economy, there is no time to delay."

Get in touch to discuss apprenticeships.

Chancellor mulls abolishing dividend allowance

The Treasury is reportedly considering abolishing the dividend allowance in Autumn Budget 2018.

The Daily Telegraph claims Chancellor Philip Hammond has business owners, directors and shareholders in his sights to help fund a Government pledge to increase spending on the NHS.

Hammond cut the dividend allowance from £5,000 to £2,000 in Spring Statement 2017, with the move taking effect from 6 April 2018.

The first £2,000 taken in dividends in 2018/19 is tax-free, with anything above this threshold being taxed according to the individual's rate of income tax.

Business owners, directors and shareholders use the dividend allowance to extract profits from their business, but recent changes have reduced this strategy's tax-efficiency.

The speculation prompted a backlash from the Federation of Small Businesses (FSB), which estimates removing the dividend allowance would raise £1.3 billion by 2022.

Mike Cherry, chairman of the FSB, said:

"Removal of the dividend allowance would be most keenly felt by small business owners on lower incomes.

"By whittling away the incentives to become a shareholder in small UK firms, you're pushing investors towards taking their money and expertise elsewhere. That's the opposite of what we're trying to achieve.

"We need to back small businesses and their shareholders – not clobber them with a secret tax grab."

Talk to us about the dividend allowance.

Treasury shelves plan to scrap class 2 NICs

Chancellor Philip Hammond has opted to scrap the planned abolition of class 2 national insurance contributions (NICs).

The Government was originally due to abolish class 2 NICs for the self-employed from 6 April 2018, but the move was delayed for 12 months in November 2017 and has now been abandoned.

The policy, which was first announced by Hammond's predecessor George Osborne in 2016, was expected to save millions of self-employed workers around £150 a year.

However, the Government cited concerns that it would force low-earning sole traders to pay more towards the state pension, and that scrapping class 2 NICs would make the tax system more complex.

Robert Jenrick, exchequer Secretary to the Treasury, said:

"This change was intended to simplify the tax system for the self-employed, but a significant number of self-employed individuals on the lowest profits would have seen the voluntary payment they make to maintain access to the state pension rise substantially.

"Having listened to those likely to be affected we have concluded that it would not be right to proceed, given the negative impacts it could have on some of the lowest earning in our society."

Class 2 NICs are paid by self-employed people with profits of £6,205 or more a year in 2018/19, with contributions counting towards the state pension.

More than 300,000 sole traders in the UK earn less than this and pay class 2 NICs voluntarily.

If the abolition went ahead, these individuals would face being moved to class 3 NICs from 6 April 2019, with weekly payments rising from £2.95 to £14.65.

Despite this, the Federation of Small Businesses (FSB) said the decision to scrap the planned abolition of class 2 NICs "let down the self-employed community".

Mike Cherry, chairman of the FSB, said:

"Class 2 NICs is a regressive levy that hits sole traders and makes life even tougher for those who are hard-up. Once you've reached a minimal income, there's no tapering or means testing in place at all.

"The self-employed were promised this niggling tax would end, but have been left high and dry."

Contact us to manage your finances.

IPPR leads call to replace inheritance tax system

A think tank is calling for inheritance tax to be abolished, as part of a set of proposals for major reform to the UK tax system.

The Institute for Public Policy Research (IPPR) published its 10-part plan for economic reform, which includes replacing the system of inheritance tax with a new 'lifetime gifts tax'.

Under current rules, inheritance tax applies to the estate of a person who has died, if it is worth more than the £325,000 threshold.

The IPPR's proposed tax would instead be levied on the individual receiving the gift.

It would apply to all gifts received throughout a person's life, above a proposed lifetime allowance of £125,000.

All further gifts above this threshold would be classed as income for that financial year and taxed at income tax rates.

The IPPR estimates this would raise an additional £9 billion a year in tax.

Sean McCann, chartered financial planner at NFU Mutual, said:

"Changes to inheritance tax are long overdue. It's a fiendishly complex and deeply unpopular tax, and it's clear that we need a much simpler set of rules that are easier to understand.

"Replacing the current system, where tax is levied on what we leave behind, with a tax on the recipient would be easier to understand and administer."

In addition, the report calls for reform to the varying taxation of different sources of income, which it says "creates distorting economic incentives and is not transparent".

It proposed that marginal tax bands should be scrapped in favour of a formula-based system where the rate would rise according to each taxpayer's level of income.

The report also recommended replacing the system of rates and allowances for employee national insurance contributions and income tax with a single rate on all forms of income.

Capital gains tax and separate rates for dividends would be abolished under this system, with income from these sources instead incorporated into a single tax schedule.

However, the exemption for capital gains on first homes would remain.

Speak to us about your current tax liability.