

# Tax Briefing



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k accountancy  
refreshingly simple solutions

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## What's on the scrap heap?

The sudden decision to call a General Election meant that draft laws passing through Parliament had to be quickly finalised or dropped. Many new tax measures were abandoned, including some which were due to come into effect on 1 April or 6 April 2017.

### New allowances

Two new allowances of £1,000 each were to apply from 6 April 2017. These were to cover income from let property, and trading or sundry other income, to avoid the need to report small amounts on a tax return. You now need to keep records of all your income and the related expenses, however small.

### Cash Basis

Individual landlords with annual turnover under £150,000 were due to apply a simplified form of accounting called the Cash

Basis from 6 April 2017.

The few transactions recorded since that date are unlikely to cause many problems, but you need to record carefully the date that all receipts were received for your lettings business.



### Non-domiciled

A new deemed-domiciled regime was due to apply from 6 April 2017 to individuals not domiciled in the UK. If you are affected, you may have sold assets around that date to prepare for the new regime and have realised a capital gain unnecessarily. If you took advantage of the rules to cleanse foreign bank accounts, you may have moved money into the UK which you thought was not taxable. These funds may now be taxable so we need to discuss your tax position.

### Pensions

Where an individual has already drawn taxable pension benefits, their subsequent pension contributions are capped by the Money Purchase Annual Allowance (MPAA). These individuals won't know how much they can pay in pension contributions in 2017-18 as the MPAA was set to reduce from £10,000 to £4,000 on 6 April 2017.

### Capital allowances

Businesses had expected to be able to claim 100% first year capital allowances on electric vehicle charging points installed from 23 November 2016 to 31 March 2019. These allowances may not now be available.

The new Government may reintroduce some or all of the above tax changes, but not necessarily from the same dates.

## Tax reporting is going digital

The law to implement the online quarterly reporting of accounts and tax information, known as

Making Tax Digital (MTD), was not passed before Parliament was dissolved, but that doesn't

mean the project has been scrapped. »



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» HMRC is investing a huge amount in the digitisation of the tax system and the MTD project will continue, whichever Government is in power after the General Election. It is possible that the timetable to roll-out MTD may be tweaked to delay some aspects until 2019. This would be welcomed, as the software providers need more time to develop accounting

software which will suit all types of taxpayer and all budgets.

In the meantime, take a hard look at your own accounting records. Are your business receipts and expenses mixed up with your private expenditure? If you have a separate business bank account, it is far easier to



collect only the business-related items and report them to HMRC. Could you use an app to record your business mileage accurately?

Let's talk about how some simple changes in the way you record expenses and sales could make your life a bit easier.

## Tax-free childcare

The Government has launched an online savings account for parents to use to save for the costs of childcare, called tax-free childcare (although it has nothing to do with the amount of tax you pay).

The savings account is open to working parents who have children aged under four years (as at 31 August 2017) and those with disabled children aged under seventeen. The scheme will be rolled-out to all other UK parents of children aged under twelve by the end of December 2017.

For every £8 deposited by the parents in the account, the Government will add another £2, up to a maximum of £2,000 per child per year (£4,000 where the child is disabled). To benefit from the scheme, both parents must earn at least £120 per week, but neither must have

total income of more than £100,000 per year.

The self-employed can open a tax-free childcare account; they don't have to meet the minimum £120 per week threshold while their business is new and in a start-up phase.

The money in the tax-free childcare account can only be used to pay for childcare provided by a registered childcare provider.

Many employees currently receive tax-free childcare vouchers provided by their employer worth £55 per week (£28 per week for higher rate taxpayers, £25 per week for those who pay 45% tax). This system of vouchers will remain open to new entrants until 6 April 2018 and, once in the scheme, employees can remain



in it as long as their employer continues to offer it. Alternatively, employees can opt out of their employer's voucher scheme and switch to the new

savings scheme. It can be tricky to decide which would be better for your family.

If your annual income is over £100,000, you can't join the new savings scheme, so stick with childcare vouchers if you receive them. If you are self-employed you can't access the employer provided childcare vouchers, so you will be better off using the new tax-free savings scheme.

As a general rule, if your childcare costs are more than £2,860 per child per year, it will be worth switching to the new tax-free childcare savings scheme, but there is no substitute for doing the sums.

## PAYE penalties

As an employer you need to make your full payment submission (FPS) to HMRC on or before the date you pay your employees. Penalties can apply each time an FPS is late, but HMRC generally doesn't raise a penalty if it is submitted within three days of the date it is due. However, if you are persistently late with submitting your FPS, HMRC will consider imposing a penalty.

HMRC has said it will 'risk assess' all late filing penalties, which means that no PAYE late filing penalties will be issued without human consideration. Where a late filing penalty is appropriate, it is issued as part of a batch once per quarter, in the second weeks of May, August, November and February.



If you do receive a penalty, you can appeal through the PAYE online system or by using a paper form, or we can do this for you. If you use the online method,

you must select a reason for the appeal using the drop-down menu and provide further facts to support your excuse for being late, in the information box.

## Paper tax return

Self-evidently, the UK tax system is very complex. What's surprising, however, is that HMRC can't program its computers to cope with all the permutations of rates and allowances that can apply in 2016-17.

The key problem is that the law allows an individual to use their personal allowance in a way that produces the lowest amount of tax payable. For earlier periods the personal allowance was generally allocated against a taxpayer's income in the order:

1. earnings, pensions and profits
2. savings
3. dividends

But for 2016-17 that may not be the most advantageous allocation, as savings are taxed at 0% to 45%, dividends at 0% to 38.1% and other income at 20% to 45%. It may be beneficial to set the personal allowance partly against the dividend income, leaving savings income within the savings rate band to be taxed at 0%, and to set the rest of the personal allowance against earnings.

There are some permutations of allowances and types of income which HMRC had not anticipated, so its computer won't accept the resulting tax computation as valid. In such cases the 2016-17 tax return and accompanying tax computation must be submitted in paper form, rather than electronically.

Please understand if we ask you to sign a paper tax return for 2016-17. This will only be required for one tax year, until HMRC reprograms its computers.

## Simple assessment

HMRC often asks pensioners to complete a tax return if their state pension is not covered by their personal allowance, which means that a small amount of tax is due for the year.

Completing the tax return can be stressful for the taxpayer and it appears to be unnecessary, as HMRC should already know the amount of their state pension. However, until now the law required the taxpayer to self assess the tax due by completing a tax return.

Now HMRC has the power to assess small amounts of tax due, using a procedure called simple assessment. They have started to issue simple assessments (tax demands) to pensioners who have a small tax liability in respect of their state pension and who had no other income in 2016-17. If this reflects your tax position, look out for a letter from HMRC containing a tax computation.

You may have already received a letter in April asking you to

complete a tax return for the year to 5 April 2017. You should wait until June, to see if you receive a second letter from HMRC which tells you not to complete a tax return after all.

If you have any doubts about letters from HMRC, please forward them to us. HMRC will not ring you to demand tax or send you emails, so any such form of communication is likely to be from scammers trying to steal your bank details.

## Reclaiming the SDLT supplement

If you have bought a house since 1 April 2016 you may have paid a stamp duty land tax (SDLT) supplement of 3% on the entire value. Generally, the supplement is not payable where your main home is replaced, even if you end up owning more than one residential property.

However, where the new main home is purchased before the former is sold, the supplement is initially payable. As long as the sale of the old main home is completed within three years of the purchase, the supplement

can be reclaimed. Could you be eligible to claim a refund of SDLT?

The repayment can be claimed either online or by post using form SDLT16. You will need the SDLT purchase reference.

The claim must be made by the later of:

- three months from the completion of the sale, and
- twelve months from the SDLT return filing date (which is 30

days from the completion of the purchase).

If these deadlines are missed, the opportunity to reclaim the SDLT supplement will be lost.

Slightly different rules apply in Scotland where land and buildings transaction tax is levied in place of SDLT. From 1 April 2018 Wales will have its own version of SDLT, with different rates and thresholds, so if you are looking to buy a property in Wales it may be best to complete before next April.

## Inheritance tax residential nil rate band

In 2015 the Conservative Party promised to 'take the family home out of tax by increasing the effective IHT threshold to £1 million'. As the law stands, this target will be met by 2020 through the introduction of the residential nil rate band (RNRB).

When the RNRB (worth up to £175,000) is combined with the main nil rate band (NRB) of £325,000, an individual can avoid paying inheritance tax on £500,000 of wealth



on his or her death. When a married couple or civil partners combine their nil rate bands, they can shelter up to £1 million from inheritance tax, but only for deaths after 5 April 2020.

The RNRB can only apply if value derived from the deceased's home is inherited by a direct descendent. Thus, the deceased must have a child, grandchild or great grandchild to pass the value on to (step-children, foster children and the spouses of all the above also count). The RNRB is applied to the entire estate on death, not just to the value of the home.

Any unused RNRB can be passed on to a spouse, just like the basic NRB. This also applies if the first spouse died before 6 April 2017.

The RNRB is reduced by £1 for every £2 of the estate value which exceeds £2 million. The RNRB can also apply if the deceased sold their home on or after 8 July 2015 to downsize or to move into a care home.

The rules are certainly not straightforward, so we should discuss how your Will should be drafted to ensure the maximum relief is obtained.

## PAYE codes are changing

The introduction of real time information (RTI) was supposed to produce more accurate employee PAYE codes, but that benefit hasn't yet materialised.

However, from July 2017 HMRC will start to use the RTI data to update employees' PAYE codes on a month by month basis. Employees may see more deductions in codes for 2017-18 as this will be a transitional year.

Any tax underpaid for 2016-17 will be recovered alongside any remaining tax underpayments due for 2015-16.

Note that no more than 50% of a person's pay can be deducted through PAYE, so large tax underpayments may have



to be carried forward or assessed separately.

HMRC will encourage employees to access their personal tax account online through GOV.UK to understand the changes to their PAYE code, rather than ask their employer. Employees can also query their tax code through their personal tax account and request changes if they think the code is wrong.

## VAT flat-rate scheme

If you use the VAT flat-rate scheme (FRS), you need to work out whether you spend at least 2% of your gross turnover, and at least £250 per quarter, on 'relevant goods'. If you don't, you must use a flat-rate percentage of 16.5% for that quarter, which removes all the financial benefit from using the FRS.

The definition of relevant goods doesn't include goods you acquire to give away as promotional items or gifts, or

goods you buy to resell which are not part of your main business activity.

If you are unlikely to meet the 2% threshold, you may want to stop using the FRS and revert to normal VAT accounting. You can opt out of the FRS from the beginning of your VAT quarter with retrospective effect. For example, if your VAT quarter runs from 1 April to 30 June, you can opt out of the FRS from 1 April 2017 if you tell HMRC before you



submit your VAT return for that quarter; this is due to be submitted by 7 August.

If you want to cease to be VAT registered, but you will carry on trading, you must tell HMRC in advance of the date you want to cancel your registration. This can't be back-dated. Once deregistered, you won't be able to reclaim VAT on purchases and you must not charge VAT on your sales.