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NEWSLETTER

SPRING 2018

Retirement of John Allen, Senior Partner

John Allen retired as Senior Partner of Mabe Allen on 31st December 2017. John qualified as a Chartered Accountant in 1964 and completed 50 years as a member of the Institute in 2014.

John was born in Derby and went to Bemrose School. In his younger days, John was a keen oarsman with Derby Rowing Club. He started work with Arthur Clarke Bates Chartered Accountants in Derby where he met his wife, Dawn. John then joined Cooper Parry and subsequently Touche Ross.

By 1972, John and Dawn had developed a small practice of clients and joined Arthur Mabe to form Mabe Allen & Co in Derby. John continued to develop the practice with Arthur and in 1985, Kevin Slack became a Partner.

John also acquired an interest in the Albert Looms Limited recycling company in Spondon.

Following Arthur's retirement, in 1990 Mabe Allen expanded into Ilkeston and subsequently merged with Fuller Worboys in 1996.

John specialised in taxation and was an Insolvency Practitioner as well as an Audit Partner. John and Dawn's son, David, joined the Practice in 1991 and became a Partner in 1998. We all wish John a long and happy retirement.

Paying dividends

Dividend payment is a primary vehicle to extract cash from owner-managed businesses, but it's an area coming increasingly under HMRC's spotlight. Mistakes in procedure can have expensive tax consequences – so how do you get it right?

Legal position

Company law (s830 Companies Act 2006) says that a company is only entitled to make distributions out of profits available for the purpose. It defines this as accumulated realised profits minus accumulated realised losses. The Act also requires that a dividend is supported by relevant accounts demonstrating that profits are available for distribution.

For a year-end dividend, the statutory accounts are likely to be the relevant accounts, but what is the position for interim dividends? Here directors may be called upon to make what the law calls 'reasonable judgment' of the current financial position of the company, and its ability to meet debts as they fall due.

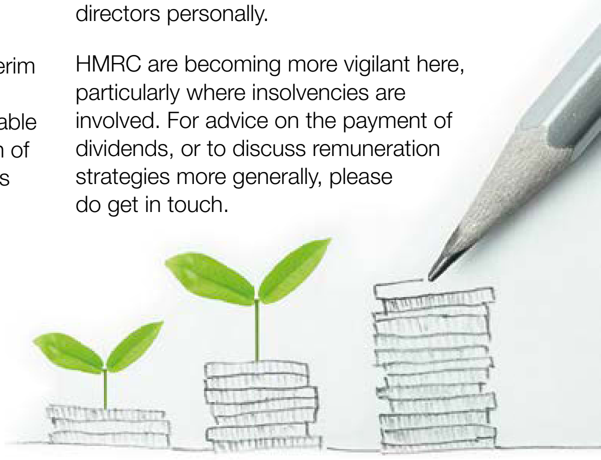
Responsibilities

Directors need to take this responsibility very seriously. Where shareholders receive a dividend, knowing at the time that there were not sufficient reserves available, they can become liable to make repayment: company directors may also become personally liable.

To pay a dividend lawfully, follow correct procedure. Good practice would suggest a directors' meeting to consider the accounts and declare the dividend; ensuring that this is minuted; and preparing a dividend voucher contemporaneously.

Some individuals and companies have lost at tax tribunals for neglecting points like these. A tribunal remarked in one case: 'There had not been any directors' meetings at or resolutions in which any of these amounts had been declared as dividends.' The tribunal held that the amounts were, in consequence, not dividends but earnings. Thus HMRC were entitled to recover PAYE income tax and National Insurance from the directors personally.

HMRC are becoming more vigilant here, particularly where insolvencies are involved. For advice on the payment of dividends, or to discuss remuneration strategies more generally, please do get in touch.



New rates and bands on the way

The UK Budget set out an increase in the personal allowance, which rises from £11,500 in 2017/18 to £11,850 in 2018/19. The basic rate band is £33,500 in 2017/18 and £34,500 in 2018/19. So the threshold at which the 40% band applies increases from £45,000 to £46,350 for those who are entitled to the full personal allowance.

For taxpayers treated as resident in Scotland, it's a different story. In 2017/18, (other than for savings and dividend income, where the £33,500 basic rate band applies), the basic rate income tax band for Scottish residents is £31,500. This means that Scottish taxpayers will generally pay higher rate tax if their income (other than savings and dividend income) exceeds £43,000, or if total income exceeds £45,000.

The Scottish Budget 2018/19 proposals include new tax rates and also new bands, making a total of five tax bands in all. For 2018/19, the rates and tax bands applicable to Scottish taxpayers on income other than savings and dividend income are expected to be as follows:

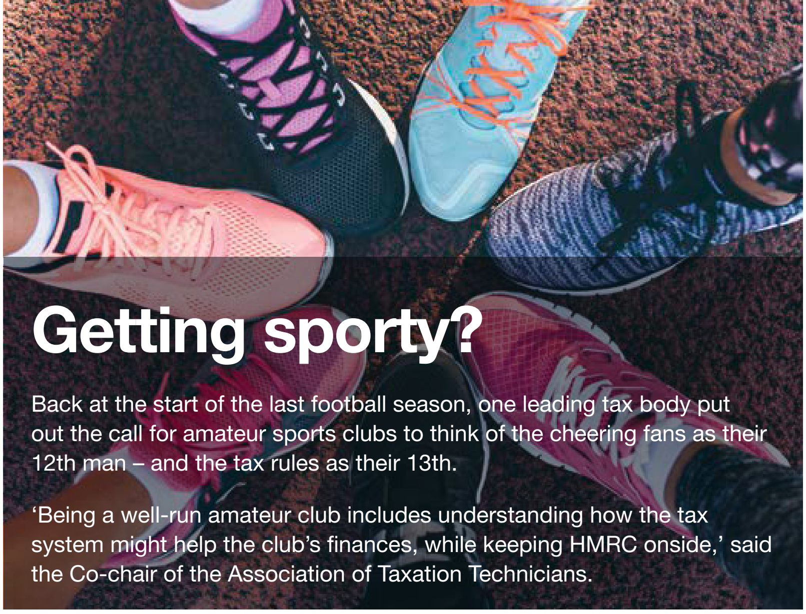
Scottish Bands	Band name	Scottish Rate
Over £11,850 - £13,850	Starter	19%
Over £13,850 - £24,000	Basic	20%
Over £24,000 - £43,430	Intermediate	21%
Over £43,430 - £150,000	Higher	41%
Over £150,000	Top	46%

The figures above assume the individual is entitled to a full UK personal allowance. The personal allowance will be reduced if an individual's adjusted net income is above £100,000. The allowance is reduced by £1 for every £2 of income over £100,000.

There is also change in sight for Welsh taxpayers, with Welsh rates of income tax in prospect from 6 April 2019.

Employers may need to nudge employees - Scots or Welsh - to be sure that HMRC are kept up to date with address details. Changes can be notified, and current details kept by HMRC checked, online via the Personal Tax Account. An individual can sign into their account, or set one up at **goo.gl/LkVoL2**

There is a special S tax code for Scottish taxpayers, which should be issued by HMRC: employers should not make decisions on residence status. If you have questions on this area, or any other aspect of employer payroll procedure, please contact us for advice.



Getting sporty?

Back at the start of the last football season, one leading tax body put out the call for amateur sports clubs to think of the cheering fans as their 12th man – and the tax rules as their 13th.

'Being a well-run amateur club includes understanding how the tax system might help the club's finances, while keeping HMRC onside,' said the Co-chair of the Association of Taxation Technicians.

Community Amateur Sports Clubs

There is one scheme in particular, involving registration for Community Amateur Sports Club (CASC) status, which can be of benefit to local clubs.

Up and running since 2002, the scheme is sometimes compared with having charitable status. It enables clubs to take advantage of a number of different tax reliefs, including Gift Aid on gifts from individuals. Other benefits include exemption from tax on bank interest, capital gains, trading profits where the club's yearly trading turnover is below £50,000, and rental income if below £30,000 per annum. CASCs are dissimilar from charities, though, when it comes to VAT. There are no specific VAT reliefs for CASCs, so CASCs are not eligible for charity VAT reliefs on the purchase of goods and services.

It is essential that participating clubs appreciate the considerable number of terms and conditions involved in the scheme. HMRC publish extensive guidance, which can be found here **goo.gl/NB5Ufk**

Applying for CASC status

There are conditions for joining the scheme, and clubs will need to provide a suitable governing document.

To be eligible, a club must:

- be open to the whole community
- be organised on an amateur basis
- have as its main purpose the provision of facilities for, and the promotion of participation in, one or more eligible sports
- not exceed a specific income limit
- meet a specific management condition
- meet a specific location condition.

CASC status is meant to be permanent. De-registration is not an option (unless the club is subsequently incorporated), and an application once made can't be withdrawn. However, if a club no longer meets the eligibility criteria, it may be de-registered by HMRC.

Gift Aid

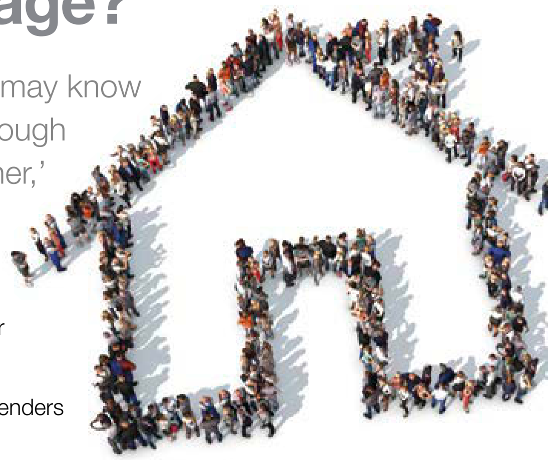
Getting the admin right when an individual makes a donation under Gift Aid is very important, and if a CASC fails to keep the right records, it may have to pay HMRC back the tax reclaimed, plus interest. It may also become liable to a penalty. But the advantages of the scheme are considerable.

CASCs can also use the Gift Aid small donations scheme, which means they can claim a 'top up' payment on cash donations of £20 or less. With this scheme, it isn't necessary to record donor identity, or to collect a Gift Aid declaration, making it ideal for use with fund raisers like street collections.

CASC or charity?

CASCs cannot apply for charitable status, and when considering whether to apply for CASC or charitable status, it is prudent to consider the different tax reliefs attached to each. We would be happy to provide an overview of the options.

Self-employed and want a mortgage?



If you're one of the UK's nearly five million self-employed people, you may know how tricky it can be to get a mortgage. 'All borrowers are jumping through more hoops than ever, but the self-employed will have to leap far higher,' said a spokesperson at analyst, Moneyfacts.

Unlike employees with a steady salary stream, the self-employed can be faced with ups and downs in income - good years and bad years. There can also be problems providing evidence of income, especially if you have only recently started trading and haven't accounts going back for two or three years.

You will need to ask your lender or mortgage provider what they will accept as evidence of income, but the good news is that there are increasing numbers of mortgage providers and lenders accepting a SA302 self assessment tax calculation printed from your HMRC online account, or a tax calculation printed from the tax return software we use, as your Agents. Also needed is a tax year overview from your online tax account.

You can find the list of lenders on the gov.uk site at **goo.gl/W4ygRJ**

The timely preparation of accounts and submission of tax returns will help any application and we are always pleased to be of service here.

National Minimum Wage in the social care sector

Employers in the social care sector have had mixed signals from HMRC about payment of National Minimum Wage (NMW) for workers carrying out sleep-in shifts – although the headline news is that NMW is payable here.

HMRC have set up a new compliance scheme, the Social Care Compliance Scheme (SCCS), from 1 November 2017. Employers enter on an opt-in basis – 'at HMRC's discretion.' They can use SCCS to 'self review,' identifying and paying any arrears for sleep-in shifts. The scheme allows 12 months for self-review, and a further three months to pay arrears. The deadline to join is 31 December 2018, and the scheme ends on 31 March 2019, which is the final deadline for payment of all arrears.

The benefit of the scheme is that employers using it will not then be liable for penalties, (200% of the amount owed, up to a maximum of £20,000 per worker) or naming and shaming over NMW underpayment. Employers who don't opt in will be subject to normal enforcement procedures, and will not be able to access these concessions. They could then be liable to penalties, potential prosecution, and naming. They are however not liable for penalties for arrears accrued before 26 July 2017.

Please consult us if you have concerns in this area.

National Minimum Wage: new rates from 1 April 2018

In the biggest rise in National Minimum Wage (NMW) rates for those under 25 for a decade, new rates apply from 1 April 2018.

18-20 and 21-24 year-olds see increases of 4.7% and 5.4% respectively. There is also a 4.4% increase in the National Living Wage (NLW) for those aged 25 and over.

NMW and NLW vary depending on age and whether or not a worker is an apprentice.

	Rate from 1 April 2018
NLW for workers aged 25 and over	£7.83
the main rate for workers aged 21-24	£7.38
the 18-20 rate	£5.90
the 16-17 rate for workers above school leaving age but under 18	£4.20
the apprentice rate *	£3.70

*for apprentices under 19, or 19 or over and in the first year of their apprenticeship

There are no exemptions from paying NMW on the grounds of the size of the business.

Tax on acquiring property in Wales

'Tax is changing in Wales' advise HMRC: and indeed it is.

From April, the Welsh Government and the National Assembly for Wales take on responsibility for some taxes paid in Wales, and property acquisition is one major area of change. Stamp Duty Land Tax (SDLT) is replaced by Land Transaction Tax (LTT) in Wales from 1 April 2018.

Since 1 April 2016, higher rates of SDLT have been charged in Wales on purchases of additional residential property (including second homes), and LTT continues this.

Welsh first-time buyers benefit from the Budget stamp duty relief announced by the Chancellor in his Autumn Budget 2017 - until 31 March 2018. After that, under LTT, the starting threshold for residential rates will be £180,000. According to Welsh Finance Minister, Mark Drakeford, this will take not just the majority of first-time buyers out of tax, but also many others 'looking to buy a home.'

LTT is set at 0% on residential purchases up to £180,000: 3.5% from £180,000 to £250,000: 5% from £250,000 to £400,000: 7.5% from £400,000 to £750,000: 10% from £750,000 to £1.5m and 12% above this figure.

When a spouse dies

Individual Savings Accounts (ISAs)

Money experts have estimated that because the small print about ISAs isn't widely known, almost nine in ten savers could be missing out when a spouse or civil partner dies.

On the death of an ISA-holding spouse or civil partner, it's possible to claim an extra ISA allowance. This means that the survivor is eligible for a one-off additional ISA allowance, equivalent to the value of the deceased saver's ISA: an 'additional permitted subscription' (APS) allowance. This is on top of the survivor's own ISA entitlement, which is £20,000 for the tax years 2017/18 and 2018/19.

The survivor is entitled to the APS allowance even if they do not actually inherit the ISA, and can use the allowance with the deceased's ISA provider or a provider of their choice. There are time limits for using the APS.

HMRC estimates that the survivors of at least 150,000 ISA holders each year could be eligible to take advantage of the APS. To qualify, the survivor must have been living with their spouse or civil partner at the date of death - in other words, not separated under a court order, under a deed of separation, or in circumstances where the marriage or civil partnership has broken down. Application for APS should be made to the manager of the deceased's ISA.

Marriage Allowance

The Marriage Allowance allows an individual to transfer 10% of their personal allowance to a spouse or civil partner where the recipient is neither a higher rate nor additional rate taxpayer.

The main scenario in which a transfer is allowed and worthwhile is where one of the individuals has little income and therefore has not used their personal allowance and the other individual does not pay tax at the higher or additional rate. But a transfer was not previously allowed where one of the parties had died.

The Autumn Budget 2017 announced that from 29 November 2017, claims in respect of Marriage Allowance may be made in respect of a deceased spouse or civil partner, and that such claims may be backdated for up to four years.

Transfers could bring tax savings of up to £230 per year.

We appreciate that you might prefer to delegate dealing with your tax matters at this time, and should be pleased to be of service.

Inheritance Tax

Inheritance Tax (IHT) is charged at 40% and may be due from an estate when someone dies, unless the estate is left to a spouse or civil partner. However, there are a number of key planning points and tax reliefs to bear in mind. There is often scope to reduce significantly a taxpayer's IHT liability, provided that appropriate and timely action is taken.

The nil rate band takes the first £325,000 out of IHT, and from 6 April 2017, a new nil rate band, called the 'residence nil rate band' (RNRB), has been introduced, meaning that the family home can be passed more easily to direct descendants on death.

The RNRB is being phased in. For deaths in 2017/18 it is £100,000, rising to £125,000 in 2018/19, £150,000 in 2019/20 and £175,000 in 2020/21. Thereafter it will rise in line with the Consumer Price Index.

There are a number of conditions that must be met in order to obtain the RNRB, which may involve redrafting an existing will.

IHT online

HMRC have begun providing an online form to help executors in England and Wales who wish to notify them of the value of an estate. The form can be used instead of the paper IHT205 form. It is available at **goo.gl/rLavQF**

It is for use:

- by personal representatives of the deceased
- applying for a grant of representation, such as probate
- in England and Wales
- in circumstances where no IHT is likely to be payable.

How we can help

IHT is an area where attention to timing and detail can be critical. Do please talk to us if you would like advice on any matters raised here.

Work: a whole new world

Uber, TaskRabbit, Deliveroo - names fast becoming familiar that would have been complete unknowns only a few years ago. The world of work is changing.

In the gig economy, a 'flexible' labour market sees workers on short term contracts or treated as freelancers, paid a piece rate for each 'gig,' rather than a daily or hourly rate. It's a growth area; recent research suggested that around 11% of the working age population participate as providers in the sharing economy.

According to a recent survey, nearly nine in ten employers and employees would like more clarification about employer responsibilities in the gig economy, and more protection for workers. The government, in its Taylor Review of employment practices, voiced concern that new patterns of work didn't 'undermine the reach of policies like the National Living Wage, maternity and paternity rights, pensions auto-enrolment, sick pay and holiday pay.' It's likely that the flexible working arrangements of the 'gig' economy will become more regulated in the future, and should you have any concerns, we would be more than happy to advise on best practice in any of these areas.

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Year End Tax Planning Guide

Timing is often the key ingredient in tax planning. The period leading up to the end of the tax year on 5 April is a prime time to take stock of your finances and tax position. There may be steps which will minimise your tax liability. As always, we are happy to advise on appropriate action.

Throughout this publication, the term spouse includes a registered civil partner. We have used the rates and allowances for 2017/18.

Buying property

First-time home-buyers got a surprise present from the Chancellor in his first Autumn Budget. From 22 November 2017, there is an exemption from Stamp Duty Land Tax (SDLT) on the first £300,000 when buying a home, where the total price of the property is not more than £500,000. 5% is payable on any amount of the purchase price in excess of £300,000.

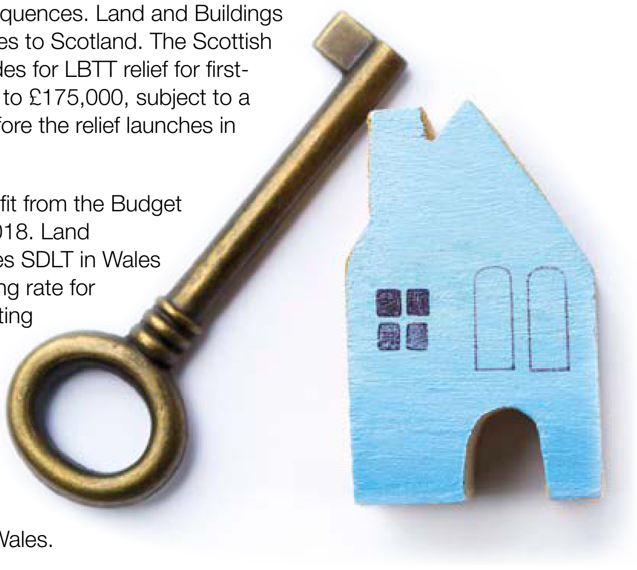
Tip

Many parents help when it comes to buying a first property for children. To take advantage of the SDLT exemption, parents need to be excluded from part ownership of the property (assuming they have bought a home before), or the exemption will be lost.

Scotland and Wales

With devolved taxes, buying a property in Scotland and Wales can bring different tax consequences. Land and Buildings Transaction Tax (LBTT) applies to Scotland. The Scottish Draft Budget 2018/19 provides for LBTT relief for first-time buyers of properties up to £175,000, subject to a government consultation before the relief launches in 2018/19.

Welsh first-time buyers benefit from the Budget SDLT relief until 31 March 2018. Land Transaction Tax (LTT) replaces SDLT in Wales from 1 April 2018. The starting rate for LTT will be £180,000, benefiting not just first-time buyers, but other homebuyers in Wales. A higher rate, of 3% over standard stamp duty land tax rates for additional residential properties, also applies to purchases in Scotland and Wales.



Dividend Allowance: don't lose out

With the introduction of the £5,000 'tax free' Dividend Allowance from 6 April 2016, there has been a dividend regime benefiting those receiving relatively small amounts in dividends. But there's change on the way which is not such good news. From 6 April 2018, the Dividend Allowance falls from £5,000 to £2,000, impacting personal and family companies where a large part of the profits is extracted as dividends.

Change for investors

The cut to the Dividend Allowance will affect dividend-paying shares and investment funds held outside Individual Savings Accounts (ISAs) or pensions. Be aware of your ISA entitlement: £20,000 for 2017/18.

Tip

Those with dividend income from shares-based investments could consider strategies to minimise the effects of the change – for example by maximising ISA income (see Tax efficient investments). Dividend growth is tax free within an ISA wrapper.

Tax saving tips for the family

Each spouse is taxed separately, so a key element in tax planning is to make the best use of the personal allowance; the starting and basic rate tax band; Savings Allowance (SA) and Dividend Allowance. You can also think about gifts of assets to distribute income more evenly – always ensuring gifts are outright and unconditional.

In the tax year 2017/18, the personal allowance is £11,500, and the basic rate band is £33,500. With the personal allowance, the threshold at which taxpayers start paying higher rate tax becomes £45,000.

In Scotland, the story is slightly different. Other than for savings and dividend income (where the £33,500 basic rate band applies), the basic rate income tax band for Scottish residents is £31,500. This means that Scottish taxpayers will generally pay higher rate tax if their income (other than savings and dividend income) exceeds £43,000, or if their total income exceeds £45,000. Additional rate tax is payable on taxable income above £150,000 for all UK residents.

Using allowances

Currently, a transfer of just £1,000 of savings income from a higher rate (40%) tax-paying spouse, who has used their SA in full, to a basic rate spouse with no other savings income may save up to £400 a year.

Tip

You can transfer part of the personal allowance between spouses. A marriage allowance of £1,150 for 2017/18 can be transferred between spouses, but only where neither spouse pays tax above the basic rate.

If you get the blind person's allowance (£2,320 in 2017/18), you can also transfer this to a spouse if you don't pay tax, or can't use all the allowance.

Income from assets jointly owned by spouses is usually shared equally for tax purposes. This applies even where the asset is owned in unequal shares, unless you make an election to split the income in proportion to the ownership of the asset. Dividend income from jointly owned shares in 'close' companies is an exception, being split according to actual share ownership. Close companies are broadly those owned by the directors, or five or fewer people.

Make it a family business

Self-employed? Run a family company? Think about employing your spouse or taking them into partnership, and thus redistributing income. But make sure such arrangements are commercially justifiable: HMRC may query arrangements that aren't solidly grounded in reality. And remember that National Minimum Wage/ Living Wage rules could come into play. Depending on how a company is structured, there could also be pensions auto-enrolment consequences, too.

Tip

To make the arrangement work, ensure:

- wages are actually paid: they're not just bookkeeping entries
- that your spouse plays an active part in the business
- that wages aren't unrealistically high.

Child Benefit: High Income Charge

If you get Child Benefit, and either you or your live-in partner (widely defined) have yearly income over £50,000, you may have to pay back some or all of the benefit through High Income Child Benefit Charge. It may be possible to reduce your income for Child Benefit purposes in a variety of ways. These include making additional pension contributions or charitable donations, or reviewing how profits are shared and extracted from the family business. Please do contact us for further advice.

Pension contributions

Pensions can provide significant planning opportunities, but the rules are complex, and it is worth taking advice to maximise the benefits.

Autumn Budget 2017 confirmed more generous limits for the Lifetime Allowance for pensions - the 2017/18 £1 million Lifetime Allowance rises to £1,030,000 for 2018/19. This is the ceiling on the value of pension funds from which benefit can be drawn without incurring an extra tax charge. The annual allowance will not change, remaining at £40,000. This is the maximum you can contribute to a pension and still get tax relief.

Tip

In many circumstances, you may have unused annual allowances from the three previous years which can be utilised in 2017/18. Please talk to us for more advice here.

Remember all individuals, including children, can obtain tax relief on personal pension contributions of £3,600 (gross) each year without reference to earnings: also, that for directors of family companies, it can be advantageous for the company to make employer pension contributions.

Giving to charity

Charitable donations made under the Gift Aid scheme allow a charity to claim back 20% basic rate tax on any donations. And if you're a higher rate taxpayer, or additional rate taxpayer, you can end up with money back in your pocket.

Donors who are higher rate taxpayers can claim back the tax difference between the higher rate and basic rate on the donation. This way, a cash gift of £80 will generate a refund of £20 for the charity, which receives £100. Donors can claim back tax of £20, making the net cost of the gift only £60.

Tax relief against 2017/18 income is possible for charitable donations made between 6 April 2018 and 31 January 2019, providing the payment is made before filing the 2017/18 tax return.

Tip

Always remember to record charitable gifts made.

Children

Children have their own allowances and tax bands, as well as their own capital gains tax annual exemption, and in some cases, there can be a tax saving by transferring income producing assets to a child.

Tip
Consider transfer of assets from other relatives such as grandparents, and/or employing teenage children in a family business to use personal allowances and the basic rate band.

Comment
Transferring assets to a child is generally ineffective where the source of the asset is a parent and the child is under 18. Here the income would remain taxable on the parent unless income arising amounts to no more than £100 gross per annum.

Tax free savings

A Junior ISA or a Child Trust Fund (CTF) account offer tax free savings opportunities for children. Existing CTF accounts continue alongside the Junior ISA (a child can only have one type) but can be transferred to a Junior ISA at the request of the registered contact for the CTF.

In 2017/18, both CTF and Junior ISA accounts allow parents, other family members and friends to invest up to £4,128 yearly in a tax free fund for a child. There are no government contributions and no access to the funds until the child reaches 18.

Capital gains

Capital gains tax (CGT) can arise when disposing of assets such as a second home, antiques, jewellery and works of art, shares, or a business.

The first £11,300 of gains are CGT free, being covered by the annual exemption. Each spouse has their own annual exemption, as indeed do children. A transfer of assets between spouses may enable them to utilise their annual exemptions. Consider selling assets standing at a gain before the end of the tax year to use the annual exemption. Bed and breakfasting (sale and repurchase) of shares is no longer tax effective, but there are two variants which still work: sale by one spouse and a purchase by the other: sale followed by repurchase via an ISA. These techniques may also be used to establish a loss that can be set against any gains.

There are also useful reliefs that can reduce the rate of CGT paid, such as Entrepreneurs' Relief, and its extension, Investors' Relief.

Family Companies

Dividends

If you run a company, remember dividend payments can provide a tax efficient remuneration strategy, the rate of tax paid on dividends being different from other income. Basic rate taxpayers pay 7.5%, higher rate taxpayers pay 32.5% and additional rate taxpayers pay at 38.1%: tax on other income is paid at 20%, 40% and 45%.

Timing is key

When paying a bonus to directors, or dividends to shareholders, timing can be critical.

Date of payment affects when tax is due, and probably the rate at which it is payable, so deciding whether to make payment before or after the end of the tax year needs consideration. Careful judgment may also be required when deciding whether a bonus or dividend is more tax efficient. Please contact us to review your particular circumstances.

Tip
Consider the payment of a pension contribution by the company. Contributions are usually free of tax and NIC for the employee (see also Pensions section). Provided the overall remuneration package is justifiable, the company should also get tax relief on the contribution.

Loans

In many family companies, director-shareholders often have 'loan' advances made by the company – such as personal expenses paid by the company. These are accounted for via a 'director's loan account' with the company.

Loan accounts can become overdrawn, and where the overdrawn balance at the end of the accounting period is still outstanding nine months later, a tax charge arises on the company. For loans made on or after 6 April 2016, this is an amount equal to 32.5% of the loan, but where the balance is repaid, there is no tax charge.

HMRC are keen to ensure these rules are not manipulated. If you are concerned whether the tax charge could apply to your company, we would be happy to advise.

'Trivial' benefits can be far from trivial

The directors of close companies can receive up to £300 of 'trivial benefits' in a tax year. You can't get £300 in one go: the benefits are limited to a value of (up to) £50 a time. Examples include a meal out, plants from the garden centre, a gift card, a bottle of wine, a Christmas present – items enhancing any remuneration package.

Trivial benefits must not be a reward for services, a contractual entitlement, cash, or a cash voucher. This means a voucher that can be exchanged for cash: not a voucher that can be exchanged for goods or services.

If you haven't used your annual trivial benefit limit, there is still time to make a very beneficial end of year top-up.

Capital allowances

Annual Investment Allowance (AIA)

This allowance gives 100% write off on most expenditure on plant and machinery of up to £200,000 per annum from 1 January 2016. If the cost is greater, further tax relief comes via a 'writing down' allowance of 8% or 18% depending on the type of asset.

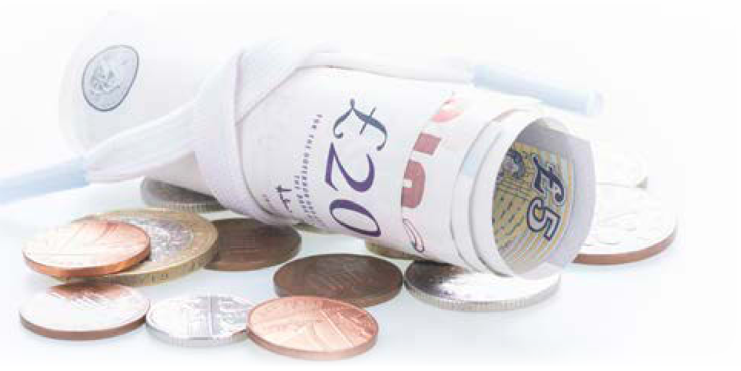
There is also a 100% allowance, sometimes called an 'enhanced capital allowance,' on some energy efficient plant and low emission cars.

AIA does not apply to cars, which are treated differently.

Tip
The timing of tax relief can maintain positive cash flow, so please contact us for further advice when planning plant and machinery purchases.

Motor cars

Tax relief here depends increasingly on CO_2 emissions, and sometimes date of purchase. Don't forget to factor in road tax cost in the year of purchase. We can help with the small print, so please get in touch.



Landlords: plan now for interest relief restrictions

April 2017 saw the start of major change in the way individual landlords are taxed, though the full effect will not be felt until 2020/21.

Landlords can no longer deduct all the cost of finance (such as mortgage interest, interest on loans to buy furnishings, or fees incurred taking out or repaying loans or mortgages) from property income. Instead, only a proportion will be allowed. For the 2017/18 tax year, the proportion drops to 75%, with 25% given as a basic rate deduction. Further reductions are to come.

Tip
The change may push basic rate taxpayers over the threshold where they become higher rate taxpayers. The key point is to plan ahead and compute by how much your income will increase year on year as a result of the restrictions. Please contact us if you would like further advice.

Tax efficient savings and investments

Individual Savings Accounts (ISAs): what's new?

ISAs are an increasingly popular investment, free of tax for both income and CGT. Investment must be made by 5 April 2018 to take advantage of limits available for 2017/18. The maximum you can save is £20,000 in 2017/18. The limit also applies for 2018/19. For Junior ISAs, the limit for 2017/18 is £4,128.

A new product from 6 April 2017 is the Lifetime ISA for 18-39 year-olds. It can be used to save for a first home, or for retirement, and there's a government top-up of 25% on your savings, up to £1,000 a year.

Other investments attracting tax relief

A Venture Capital Trust (VCT) invests in shares of unquoted trading companies, and an investor will be exempt from tax on dividends and on any capital gains arising from disposal of the shares. Income tax relief at 30% can be available on subscriptions for VCT shares, subject to certain conditions.

The Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) allow income tax relief on new equity investment in qualifying unquoted trading companies. There have been high profile cases where claims have failed because of easily-avoided errors. Making an EIS claim where an SEIS claim should have been made, for example, can make SEIS unavailable. We are happy to advise on the rules.

Autumn Budget 2017 brought higher limits to encourage investment in knowledge-intensive companies via EIS and VCTs. These are generally effective from 6 April 2018. It also brought some tightening of the rules, such as the 'risk to capital condition' for VCTs, EIS and SEIS. This is intended to focus investment on smaller, higher risk companies. With reliefs like these, a lot can be at stake. Please do contact us for professional advice.

Savings income: get it tax free

Savings income is income such as bank and building society interest. You can earn a certain amount of savings income tax free, thanks to the Savings Allowance (SA). For 2017/18, the SA is up to £1,000 for basic rate taxpayers, and up to £500 for higher rate taxpayers. Additional rate taxpayers do not have a SA.

SAs are in addition to the 0% starting rate of tax for savings income, which can apply for up to £5,000 of savings. However, the rate is not available if taxable non-savings income (broadly, earnings, pensions, trading profits and property income, less allocated allowances and reliefs) exceeds £5,000. Most people will not pay tax on their savings income, but if tax is payable, HMRC will look to collect any tax they think is due via PAYE tax codes where possible.

Tip
HMRC are just starting to use previous year's savings interest data from banks and building societies for coding notices. It is always necessary to check tax codes, and all the more so, if the interest you will receive in the coming year is likely to be materially different.

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Essential Employer Update 2018

We look at recent developments in employment law and payroll practice.

HMRC takes hard line on illegal working

HMRC require any employer using labour supplied by a third party to undertake stringent checks to guard against illegal working practices.

Employers need to establish where their workers come from, how they are paid and whether those arrangements are legal. HMRC advise that there are four main areas for employer consideration:

- is the supplier of labour legitimate, with no history of non-compliance
- does the employer understand and approve of the labour supply chain used
- are agency workers paid the contractual rate – and does this comply with National Living Wage/National Minimum Wage legislation
- is there pro-active employer involvement to eradicate modern slavery and illegal working in the labour supply chain?

The key point to note is that employers must be able to demonstrate compliance: there must be evidence that relevant checks have been carried out – that they have checked that appropriate licences are held, such as a Gangmaster Licensing Authority licence or a Security Industry Authority licence, for example.

Failure to comply can have severe repercussions. If non-compliance is established, employers may become liable for unpaid tax and National Insurance contributions, and if HMRC consider that non-compliance has involved the employer in VAT fraud, the right to reclaim input tax may be lost. Be aware that employers connected with a non-compliant labour supply chain are likely to be deemed to be complicit by HMRC, unless they can prove otherwise.

These penalties come on top of government rules which can see employers facing fines and even prison sentences of up to five years where they take on people who don't have the right to work in the UK. The risk of reputational damage is also considerable, and offenders may be named and shamed in the press.

In a further development, the Chancellor announced in the autumn Budget that the construction sector will soon come under the spotlight, with new rules likely in 2019 on VAT fraud in labour supply chains in construction.

Business Tax Account: changes for employers

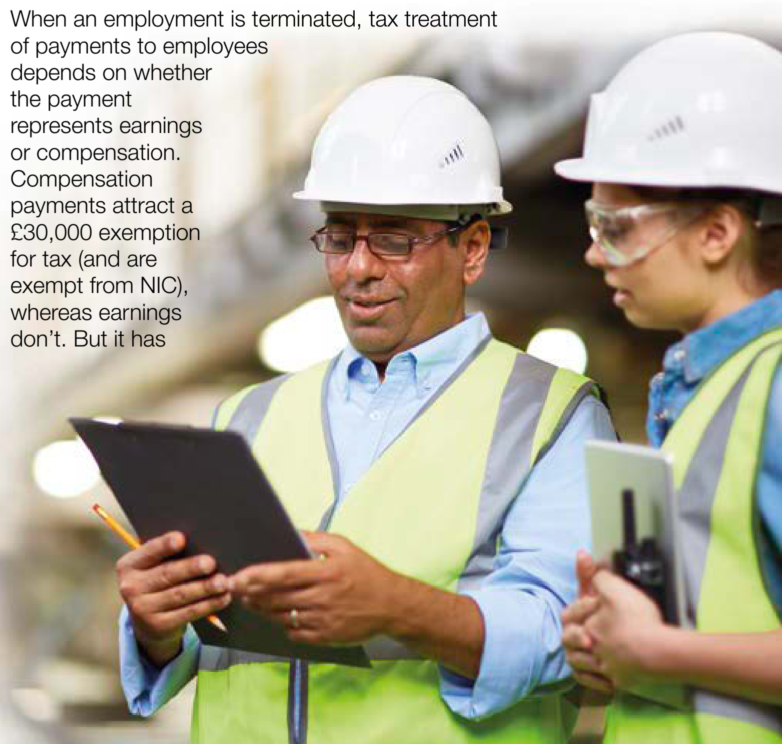
As part of the Making Tax Digital (MTD) programme, HMRC are gradually making changes to the Business Tax Account (BTA). Most recently there have been changes to the way employer PAYE liabilities and payments are presented. There have been problems with the way HMRC have processed RTI data in the past, so that the figures employers have submitted haven't always matched what's shown on the BTA. To fix this, HMRC are gradually working on the way that RTI data is pulled into the BTA. There are also changes to overall online design, with new pages showing annual and monthly statements, and added detail such as the Apprenticeship Levy. It is important that employer clients check their BTA – even if payroll is outsourced – to make sure that HMRC have processed data and payments correctly.

Please be aware that we as agents are not able to access your BTA directly. However, should you have any questions, we will be happy to assist or contact HMRC on your behalf.

Losing staff: check termination payments

Changes from 6 April 2018 were in sight for the tax and National Insurance treatment of termination payments, and particularly payments in lieu of notice (PILONs). But there have been further developments here, and employers need to be aware of the latest government timetable. Many employers will have seen publicity on this issue earlier, and should note the revised timetable which delays the introduction of some changes by a year.

When an employment is terminated, tax treatment of payments to employees depends on whether the payment represents earnings or compensation. Compensation payments attract a £30,000 exemption for tax (and are exempt from NIC), whereas earnings don't. But it has



been difficult to establish which category some payments fit into – and PILONs have been especially problematic. Where PILONs are made and the employee has a contractual entitlement or strong expectation of receiving one – say if the business is known to make PILONs – these have been treated as earnings, and so do not fall within the exemption. But where there isn't a contractual entitlement, or where payment represents damages for failure to give notice, the exemption has usually applied.

Coming in April 2018 - change for PILONs

From 6 April 2018, the way PILONs are taxed is changing. The employer will need to calculate the pay that the employee would have received if employment had carried on throughout the period of notice, the post-employment notice pay (PENP). PENP will always be taxable. It is also subject to Class 1 NIC. Broadly, anything above this will be treated as a compensation payment and attract the £30,000 tax exemption. Calculating PENP is likely to prove challenging.

Postponed to April 2019 – change to National Insurance treatment

Termination payments treated as compensation payments (rather than earnings) at present do not attract NIC. This will continue to be the case until April 2019, when there will be an employer-only NIC charge on any amounts in excess of the £30,000 limit. Note that instead of a start date of 6 April 2018, this will not now take effect until 6 April 2019. Proposals at present suggest that this is likely to be collected in real time via RTI.

Planning employee termination packages can be complex, and we are happy to offer advice.

Corporate tax evasion

Companies and partnerships should be aware that since September 2017, they can be prosecuted if they fail to prevent staff facilitating criminal tax evasion.

They now become liable for failure to prevent employees, agents or others who provide services on their behalf from facilitating criminal tax evasion. Previously liability arose only for senior members of the organisation, such as directors. Please contact us for more information on how we can help you to risk assess and put appropriate measures in place to protect your business.

Childcare: where are we now?

New government scheme

The implementation of Tax-Free Childcare, the new government scheme to help working parents with the cost of childcare, has been rolled out in stages.

The scheme first made its debut in April 2017 and although there have been initial systems problems, HMRC expect that the scheme will be open to all eligible parents by 14 February 2018. Application is made online through the Childcare Choices site **goo.gl/2jWL4z** and application can be made for all eligible children at the same time.

Under Tax-Free Childcare, for every £8 the parent pays, the government provides a £2 top-up, to a maximum of £2,000 per child each year – with a higher limit of £4,000 for disabled children. This gives a total childcare pot of £10,000, or £20,000 for disabled children. To be eligible, parents must generally have minimum weekly earnings of at least £120 each. There is also an upper earnings limit of £100,000.

Employers may like to advise affected employees that there may be the possibility of compensation if a parent is unable to complete an application for Tax-Free Childcare; is unable to access their childcare account; or doesn't get a decision about whether they are eligible, without explanation, for more than 20 days. Those employing a nanny should be able to use the childcare account to pay their PAYE tax and National Insurance. Delays in getting this system working may also give grounds for compensation. Application is made online **goo.gl/AfnQh9**

Existing employer schemes close to new joiners

Many employers already help employees, often by providing childcare vouchers by way of salary sacrifice, and existing Employer-Supported Childcare (ESC) will run alongside the new scheme. However, these schemes must close to new joiners from April 2018. Employees can choose whether to remain in existing schemes or switch to Tax-Free Childcare, but parents cannot be in both Tax-Free Childcare and ESC at the same time. The Childcare Choices website provides useful guidance on the options available to affected employees. As with any remuneration package, care is needed with the detail. Please do contact us for help in this area.

Salary sacrifice: wider rules

From 6 April 2017 rules on Optional Remuneration Arrangements (OpRAs) were introduced, with a bearing on salary sacrifice and optional remuneration schemes. They can potentially affect any arrangement where an employee can choose between cash and a benefit, such as a company car. Broadly, where these rules apply, the taxable value is now the higher of the cash foregone or the taxable value under benefit in kind rules. The rules affect any arrangements made or varied since 6 April 2017.

This does not apply to: employer-provided pension savings and advice, childcare vouchers, workplace nurseries, ultra-low emission company cars and some other benefits.

Following a transitional year, the rules apply to all pre-6 April 2017 salary sacrifice contracts from 6 April 2018, with the exception of a few specific benefits. These benefits are protected from the rules until 6 April 2021, (so long as not varied or renewed before then): cars, vans, fuel, living accommodation and school fees.

Pensions auto-enrolment: going forwards

Employers need to remember that there are increased minimum contributions into workplace pensions from 6 April 2018. From this date, the minimum contribution for employers becomes 2%, with the overall contribution level increased to 5%, making the balancing contribution due by employees 3%. The current overall minimum contribution rate is 2%, with a 1% minimum for employers, and most employees currently paying the balancing 1% contribution. The Pensions Regulator (TPR) recommends early preparation, including checking that payroll software will cope with the change, and ensuring employees are aware of their increased pension payments. TPR provides a template letter **goo.gl/nHCUSJ**

Re-enrolment duties are also on the auto-enrolment calendar for an increasing number of employers. Every three years, employers must re-enrol in a pension scheme any eligible staff who have left the pension scheme or reduced their contributions below the minimum level. The exact date will vary from employer to employer. TPR site has a useful re-enrolment tool which will help calculate your compliance date **goo.gl/UpbRxV**

National Minimum Wage: new compliance scheme for social care sector

Some employers in the social care sector have had problems with back payments of National Minimum Wage for workers carrying out sleeping time shifts.

There is now a new voluntary compliance scheme, the Social Care Compliance Scheme, introduced from 1 November 2017. This provides time to pay arrangements, and means employers are not penalised or named and shamed. HMRC have published guidance **goo.gl/3c58Mx**, but professional advice has been recommended by leading tax bodies. We will be happy to be of assistance.

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Making Tax Digital

Making Tax Digital (MTD) represents a major change in the way taxpayers will interact with HMRC. It is part of HMRC's flagship programme to make the UK one of the most digitally-advanced tax collection agencies in the world, and change is already underway.

This Briefing outlines some of the key developments involved – for businesses and for personal taxpayers.

Change for business: VAT

In July 2017, the government announced a new timetable for MTD for Business (MTDfB). This means that as far as businesses are concerned, the first big change in the way they keep records and report to HMRC takes place from 1 April 2019. It will only be mandatory for the VAT regime, and only for businesses whose turnover is over the VAT threshold (currently £85,000).

Digital record keeping and submission of VAT returns: update

Draft secondary legislation was published in December 2017, providing greater clarity about the proposed MTD VAT regime. Businesses have had many unanswered questions here, and the latest information is given below. However, the proposals are still the subject of government consultation, and change is not impossible, even at this stage.

In outline, from April 2019, those in MTD for VAT will be mandated to keep some VAT records digitally, using functional compatible software. The VAT return will be calculated and submitted to HMRC via an Application Programme Interface (API). Submission can be from software, bridging software or API enabled spreadsheets, and HMRC appreciate that there will be different 'customer journeys' to do this. The transfer of data from the mandatory digital records through to receipt of information by HMRC however, must be digital.

Options for digital transfer of information to HMRC will include XML import/export, macros or linked cells. Manual transfer or transposition of data will not be permitted.

Functional compatible software is defined as a program or set of programs that can:

- record and preserve electronic records in an electronic form
- provide HMRC with information from the electronic records and returns in an electronic form, and by using the API platform
- receive information from HMRC using the API platform.

The most recent advice from HMRC contains the welcome news that adjustments such as partial exemption can be calculated separately outside the digital records, and transferred in digitally or manually. However, ultimate information transfer to HMRC in all cases will have to be digital.

HMRC envisage that digital records will not have to be in one piece of software, but a digital link will be required between any pieces of software used.

Example
A business may use one piece of accounting software to record sales and purchases, transferring the totals into a spreadsheet to calculate the VAT return. The information is then sent to a piece of bridging software to submit the VAT return to HMRC. Here three pieces of software are involved. To qualify as functional compatible software, the links between them will have to be digital.

When MTD for VAT begins, HMRC anticipate that there will be a 'soft landing' period of a year, when penalties for record keeping will not be applied, giving businesses 'in certain circumstances extra time to update legacy systems to be fully compliant.'

Scope of digital records

The records to be kept digitally include:

- designatory data - business name, address, VAT registration number and a record of any VAT accounting schemes used
- supplies made - time, value and rate of VAT charged
- total value of outputs for the period, split between standard rate, reduced rate, zero rate, exempt and outside the scope

- supplies received - time and value of supply and amount of input tax to be claimed
- VAT account
- the totals (but not the underlying calculations) of any adjustments
- record of Daily Gross Takings if using a retail scheme.

How we can help

Whatever the small print, MTD will involve fundamental change in the way businesses keep records and report to HMRC, and it would be prudent to review the extent to which your business will be able to effect a smooth transition to a digital future. We should be happy to advise, or help with the submission of your VAT return if required.

MTD for personal taxpayers

For non-business taxpayers, MTD is already having an effect. Change comes via:

- use of HMRC's online Personal Tax Accounts (PTAs)
- Dynamic Coding – real time changes in PAYE tax codes
- the introduction of Simple Assessment.

Personal Tax Accounts

Fast becoming HMRC's preferred method of contact with taxpayers, the PTA is at the heart of MTD for individuals.

PTAs are designed for taxpayers to interact securely with HMRC, update details, and check tax affairs in real time. They are undergoing continuous development, so HMRC can add to the services provided. Many businesses will already interact online with HMRC via a Business Tax Account for PAYE and VAT purposes. The PTA is the personal equivalent of this.

Personal taxpayers wanting to use HMRC's online services need to set up a PTA online. There is a range of HMRC online guidance to help, including brief, self-explanatory videos for every step involved **goo.gl/tpMJoQ**

Services HMRC currently provide online include:

- PAYE – check your tax code and an estimate of the tax you'll pay
- National Insurance (NI) – view your NI record
- Check your State Pension
- Claim a tax refund
- Fill in, send and view a personal tax return
- Check and manage tax credits and Child Benefit
- Updating personal details – such as your address.

PTAs can be used to make payments of tax due, or provide bank details to HMRC when due a tax refund. They can also be used to provide details of taxable benefits from employment, such as a company car.

PAYE tax codes

From July 2017, HMRC have been using 'Dynamic Coding' to update PAYE tax codes more frequently. This involves taking information from employers and pension providers, and other third parties (such as government departments, banks and building societies), in real time. Dynamic Coding aims to reflect changes in work and income through real time changes in tax codes, so the right amount of tax is collected up front.

This has implications for employers, and for employees and pensioners. Employers will have to make more frequent changes to employee codes and deal with employee queries, while employees and pensioners may find PAYE codes change more often.

Taxpayer responsibilities

HMRC expect PAYE taxpayers to report relevant changes in circumstances, such as a new employment, new benefit in kind, an increase in salary, and to check changes made to their codes.

There are a number of factors which can mean that PAYE taxpayers have paid the wrong amount of tax in-year – leading either to a bill or refund. There may be a bill if, for instance, there is a taxable benefit that HMRC were unaware of, or a source of income not taxed under PAYE. There may be a refund if someone has left work part way through the tax year. A refund could also arise where someone has multiple part time jobs. In this scenario, basic rate income tax may be paid, without the personal allowance being fully used in the main job.

What has happened until now is a reconciliation at the end of each tax year - the P800 tax calculation process - when HMRC check tax paid under PAYE, and deal with problems like those outlined above.

With Dynamic Coding, the hope is that unexpected bills and in-year overpayments become a thing of the past.

But even with the new system, there can be mistakes. The system works on a system of estimates and assumptions. One such assumption is that an employee will receive the same level of pay for the rest of the year.

If earnings are even throughout the year, the new system may work very well for the taxpayer, but should pay fluctuate, for example due to commission or bonus payments, then the coding may be wrong. Those with multiple jobs may also find the system inaccurate. Action will then be needed to alert HMRC to the problem. Looking at the PTA will show how the figures have been worked out. The PTA can also be used to notify HMRC if a tax code appears to be wrong.

Simple Assessment

Simple Assessment enables HMRC to assess income tax or capital gains tax liability without the completion of a self assessment tax return.

According to HMRC, 'Simple Assessment … will make life easier for millions of customers who have had to complete Self Assessment tax returns in the past.' Though HMRC may look to extend Simple Assessment in future, at present it affects just two groups of people:

- state pensioners with income more than the personal tax allowance
- PAYE customers, who have underpaid tax and who cannot have that tax collected through their tax code.

Simple Assessment PA302 or P800

HMRC's policy is to write to those due to join Simple Assessment, sending either a P800 or a Simple Assessment letter (PA302).

Taxpayers getting a PA302 from HMRC will see HMRC's figures for their income from pay, pensions, state benefits, savings interest and employee benefits. It is important to remember that the PA302 is a binding assessment: HMRC can enforce it. It is therefore essential that the PA302 is checked very carefully.

If incorrect, it should be queried with HMRC. There are 60 days to contact HMRC with corrections. Again, this can be done via the online PTA.

How we can help

Whilst HMRC is keen to direct taxpayers to their PTA, please be aware that we, as advisers, do not have access to your PTA. This has been a problem in the development of PTAs that HMRC are only now taking steps to address.

If you have a query about information shown in your PTA, please bring it to our attention at the first opportunity. We can also advise on the correct tax treatment of any aspect of your income, so please do not hesitate to contact us on any of the MTD issues dealt with here.