Godley & Co
Chartered Accountants & Tax Specialists

TAX NEWSLETTER
October 2016

Dear Friend

Welcome to our October tax newsletter. Our monthly updates are designed to keep you informed of the latest tax issues.

Remember, we are here to help you so please contact us if you need further information on any of the topics covered.

Best wishes

Godley [Tax Team]

REPORTING TO HMRC EVERY QUARTER TO GO AHEAD IN 2018

The Government and HMRC remain committed to the "Making Tax Digital" project with more information being sent online to HM Revenue and Customs (HMRC) by employers, pension funds, banks and other institutions.

The next big step will be the introduction of quarterly reporting of income and expenditure by businesses and landlords from 2018. HMRC are currently consulting on a number of proposals to make radical changes to facilitate the introduction of the new regime. We have serious concerns about the timescale. HMRC are expecting businesses to use new Apps on their Smart phones and Tablets to transmit their data to HMRC.

Table below details key dates for applicable business.

	Type of Business	
Quarterly updating for:	Sole Trader, Partnership, or Landlord	Limited company
Income Tax and NICs	From April 2018	N/A
VAT	From April 2019	From April 2019
Corporation Tax	N/A	From April 2020

OVERVIEW OF MAIN PROPOSALS

Small businesses and landlords will be encouraged to prepare their accounts on a cash basis with the threshold for using the basis significantly increased.

The current basis period rules for unincorporated businesses to be reformed.

A new voluntary Pay As You Go (PAYG) system to be introduced to help businesses budget for their tax payments.

EXTENDING THE CASH BASIS

About 1 million small businesses currently prepare their accounts on a cash basis. The present threshold for using the cash basis is the VAT registration limit £83,000 and

HMRC are consulting on the limit being significantly increased, possibly double the VAT threshold of £166,000, the current limit for leaving the scheme.

WHAT IS THE CASH BASIS?

The current cash basis for preparing accounts was introduced as a simplification measure from 6 April 2013. Using the cash basis means that businesses merely need to calculate their profits based on receipts and payments.

There are no adjustments at the end of each period for accrued expenses and amounts prepaid, and no adjustment for stock or bad debts at the end of the period.

Another simplification is that the cost of equipment bought for the business, except for motor cars, can be deducted directly in arriving at the profit without the need for a capital allowances claim. One disadvantage of the current cash basis rules is that interest on money borrowed to finance the business is limited to £500 a year and a similar restriction is likely to be incorporated into the new rules.

PROPOSALS TO SIMPLIFY BASIS PERIODS

The current basis period rules are complex, and many unincorporated business owners find them difficult to comprehend. Where the business makes up accounts to a date other than 5 April the accounts and profits have to be made to "fit" into the tax year. There are particular problems at the commencement of trading as some of the initial profits are taxed twice and the "overlap" profits are then deducted on cessation.

One proposal is for businesses to prepare accounts for a period that aligns with the tax year (6 April - 5 April) or even prepare accounts for shorter periods such as each quarter to align with their VAT quarters and submissions to HMRC.

PAY AS YOU GO

Another complication of the current self-assessment regime is that where tax has not been collected under PAYE or at source, primarily on self-employed profits and rental income, the taxpayer is required to make payments on account.

These payments on account are due on 31 January and 31 July based on 50% of the outstanding liability for the previous tax year with a balancing payment the following 31 January. This can make budgeting cash flow for the self-employed and landlords difficult for some to manage.

The government is proposing to introduce a new voluntary Pay as You Go (PAYG) system for the self-employed and landlords to make payments towards their income tax, national insurance and VAT liabilities monthly with a reconciliation at the end of the year.

Many of these proposals may have significant implications for your business. We will update you on further details once we see the outcome of the various consultations. We can then discuss how we can assist you with your quarterly obligations.

PAYING 20% INSTEAD OF 28% ON THE SALE OF PROPERTY

The latest Finance Act has retained the 28% CGT rate for sales of residential property, whereas the general rate was reduced to 20% for higher rate taxpayers.

It has been suggested that it is possible to reduce the rate from 28% to 20% by deferring the gain temporarily into qualifying EIS company shares.

The tax planning opportunity arises because reinvesting the property gain in Enterprise Investment Scheme (EIS) company shares defers the gain until the shares are sold when the gain comes back into charge at the general rate of CGT, currently 20% for a higher rate taxpayer.

There is no minimum holding period for EIS deferral relief, however where the investor is seeking income tax relief and CGT exemption on the sale of the shares they need to be to an unconnected investor and retain the EIS shares for at least 3 years.

The reinvestment in EIS shares must take place during the period of 12 months before to 36 months after the date of disposal of the property.

Shares in EIS qualifying companies are risky investments and specialist investment advice should be taken. There is also a chance that HMRC may block this tax planning strategy in the future.

HMRC LETTERS TO CLIENTS

On 30 September 2016 HMRC published a letter which accountants and tax practitioners have to send to their clients where they have given advice or services about the client's offshore:

- Self-employment income;
- Employment income;
- Savings;
- Investments; and
- Profit from selling assets abroad.

If the person is a Financial Institution (FI) and has referred a client to an institution for an overseas account the FI still needs to send them a notification letter. Agents must send these letters to their clients before 31 August 2017. These letters are part of HMRC's campaign to nudge individuals who have not declared overseas income and assets on their UK tax returns.

From 2016, HMRC is getting new financial information about customers from more than 100 jurisdictions- including details about overseas accounts structures. Should you wish to discuss this further please do not hesitate to contact Vipool Shah or Viral Haria.

EMPLOYMENT TAX UPDATES

Please see below some employment tax updates:

Salary sacrifice arrangements - the Government is consulting on removing salary sacrifice arrangements from 5 April 2017 except for the following:

- Employer pension contributions;
- Employer provided pension advice;
- Childcare vouchers and workplace nurseries; and
- Cycles under 'cycle to work' schemes.

Trivial benefits – Benefits worth no more than £50 will be disregarded provided they are neither cash nor cash vouchers and not contractual or directly for services rendered in the employment. The £50 limit applies to any number of benefits provided to ordinary workers in a year but close company directors and family are limited to a total of £300 per year.

Payrolling benefits in kind – employers can payroll most benefits in kind and expenses except vouchers and credit tokens, employer provided living accommodation and interest free or low interest loans. Employers intending to payroll benefits and expenses must register with HMRC.

Disguised remuneration schemes – The Government will introduce legislation to put beyond doubt that all loans or debts from disguised remuneration schemes will be taxed as earnings if they haven't already been fully taxed or repaid on or before 5 April 2019. Should you wish to discuss further, please contact Hemel Khimasia who will be able to assist you.

REVIEW YOUR UK INHERITANCE TAX (IHT) PLANNING

With increasing asset values and changing circumstance it is prudent to review your estate regularly. We suggest a review is undertaken to see if IHT can be mitigated.

At 40% (after reliefs and exemptions), the liability can be very substantial. Do consider revaluing your assets & liabilities to ensure any life policies and/or cash funds are sufficient to cover the potential liability. For example if an individual is asset rich, his estate may not have enough funds to settle the IHT liability, or on the other hand a life policy may not have a sufficient pay-out because of increasing asset values.

Here is an aide-memoire in respect of some of the reliefs and exemptions available to an individual.

- Annual exemption - £3,000;
- Small gifts - £250;
- Gifts in consideration of marriage / civil partnership;

- Business property relief;
- Gift made as part of normal expenditure out of income;
- Have Wills been prepared in all jurisdictions? ans
- On gifts to connected persons do not to forget the potential CGT and SDLT impact on a gift.

IHT planning is a complex exercise for which professional advice should always be sought. Please click here to see how we can help to mitigate an individual's IHT liability. Should you wish to discuss this further please do not hesitate to speak to your contact person or Viral Haria.

TAX DIARY OF MAIN EVENTS FOR OCTOBER/NOVEMBER 2016

- 1 October - Corporation tax for year to 31/12/15
- 5 October - Deadline for notifying HMRC of chargeability for 2015/16 if not within Self-Assessment and receive income or gains on which tax is due
- 19 October - PAYE & NIC deductions, and CIS return and tax, for month to 5/10/16 (due 22 October if you pay electronically)
- 31 October – Deadline to file paper Self-assessment returns for 2015/16
- 1 November - Corporation tax for year to 31/01/16
- 19 November - PAYE & NIC deductions, and CIS return and tax, for month to 5/11/16 (due 22/11 if you pay electronically)

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Tolley's TAXATION AWARDS 2016 FINALIST

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