HANLEY & CO
CHARTERED ACCOUNTANTS
AND BUSINESS ADVISORS

TAX TIPS & NEWS

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Welcome...

To the latest Tax Tips & News, our newsletter designed to bring you tax tips and news to keep you one step ahead.

This is a double September / October issue. November's edition to follow soon!

We are committed to ensuring none of our clients pay a penny more in tax than is necessary and they receive useful tax and business advice and support throughout the year.

Please contact us for advice in your own specific circumstances. **We're here to help!**

HMRC publish Agent Update: Brexit Special

HMRC have published a Brexit edition of their Agent Update publication, which contains some useful information on changes to various procedures after Brexit.

In particular, articles are included on the following topics:

Grants for businesses completing customs declarations: £16m in new government funding is now available to help businesses train staff in making customs declarations, and to help businesses who support others who trade goods to invest in IT. This will ensure that trade with the EU continues as smoothly as possible after Brexit on 31 October.

Customs agents currently help businesses who trade outside the EU. This funding should help increase the capacity of the sector as businesses trading with the EU consider whether to get an expert to complete customs documentation for them after Brexit.

Changes for UK employers sending workers to the EU, the EEA or Switzerland: Currently the EU Social Security Coordination Regulations ensure employers and their workers only need to pay social security contributions (such as National Insurance contributions in the UK) in one country at a time. However, if the UK leaves the EU without an agreement, the coordination between the UK and the EU will end. This will mean that employees working in the EU, the EEA or Switzerland may need to make social security contributions in both the UK and the country in which they are working at the same time.

VAT IT system changes for businesses outside the UK: Businesses need to prepare for various changes to VAT in the event of a no-deal Brexit. HMRC have flagged up new procedures for checking VAT numbers and paying VAT on sales of digital services provided to UK consumers.

Delay in implementation of domestic reverse charge VAT for construction services

HMRC have published Brief 10 (2019), which explains that the introduction of the domestic reverse charge for construction services will be **delayed** for a period of 12 months until 1 October 2020.

A domestic reverse charge is an anti-fraud provision, which means that the UK customer who receives supplies of construction services must account for the VAT due on these supplies on their VAT return, rather than the UK supplier.

To allow for potential cash-flow and administrative impacts the change could have on businesses, there has been a long lead-in time ahead of the measure coming into force. The change was due to take effect from 1 October 2019. However, industry representatives raised concerns that some businesses in the construction sector would not be ready to implement the change from that date.

To help these businesses and give them more time to prepare, the introduction of the reverse charge has been delayed for a period of 12 months until 1 October 2020. This will also avoid the changes coinciding with Brexit.

In the intervening year, HMRC will focus additional resource on identifying and tackling existing perpetrators of the fraud. They will also work closely with the sector to raise awareness and provide additional guidance and support to make sure all businesses will be ready for the new implementation date.

HRMC recognise that some businesses will have already changed their invoices to meet the needs of the reverse charge and cannot easily change them back in time. Where genuine errors have occurred, HMRC will take into account the fact that the implementation date has changed.

Some businesses may have opted for monthly VAT returns ahead of the 1 October 2019 implementation date which they can reverse by using the appropriate stagger option on the HMRC website.

Effective employee benefits don't have to cost much

Work life balance and flexible working benefits may be more valued than some of the more expensive employee benefits offered by some businesses.

Google is well known for providing everything from free food to onsite gyms, while Netflix has joined the bandwagon of firms offering unlimited holidays. What these employers demonstrate is that in the war for talent, large businesses are prepared to invest heavily in order to attract and retain the best people. Competitive pay and good benefits still factor into an employee's decision to join and stay at a firm. However, the market is starting to focus on offering some other key benefits. To truly enjoy their jobs, employees must feel that their employers want to provide them with what they need to be successful in both their professional and personal lives. A recent study by Mercer identified three factors that employees are looking for in a company.

Flexibility

The nine-to-five workday is outdated. Regardless of industry type, flexibility is incredibly important to employees who are trying to get their work-life balance right. Firms that offer employees flexibility in the form of remote working, flexible schedules and the technology to work from anywhere are attracting the best people. Flexible working has also been linked to reduced levels of workplace stress, better employee well-being and increased productivity. The best firms have created a culture of trust. They trust their employees to self-manage and get the job done.

Health and Well-Being

Workplace wellness initiatives show employees that their employers truly care about their health and well-being. To be successful, employee wellness programs need to be customised and include a wide variety of wellness initiatives such as fitness activities, onsite health screenings, providing standing desks and regular 'lunch and learn' sessions. To truly make a commitment to employee health and wellbeing, employers need to lead by example and create a culture of wellness across the whole firm.

Working with a Purpose

The next generation of talented employees are coming up through the ranks and they want to work for a firm with a purpose. They are willing to give up fancy offices and free coffee in exchange for getting to work on more fulfilling projects that make a difference. Modern employees want to feel their work is contributing to the greater good of society. In order to create a sense of purpose for your team, you should create a company vision, develop a reward and recognition system that encourages the right behaviour and educate your employees as to how their job impacts the firm, its customers and the wider community.

Tax Cuts coming for Zero Emission Cars

Significant changes to the tax rules governing zero emissions company cars will take effect from 6 April 2020, potentially making an electric car a more attractive option.

The tax rules for calculating the taxable benefit arising on a car are not changing - this will still be calculated (broadly) using the car's full manufacturer's published UK list price multiplied by the 'appropriate percentage', which can be found by reference to the car's CO2 emissions level. This calculation gives the taxable value of the car benefit. The employee pays income tax on the final figure at his appropriate tax rate (e.g. 20% for basic rate taxpayers; 40% for higher rate taxpayers). This formula means that in general terms, the lower the C02 emissions of the car, the lower the resulting tax charge will be.

For 2019-20, the appropriate percentage for cars (whether fully electric or not) is 16% for those emitting 50g/km CO2 or below, and 19% for those emitting CO2 of between 51 and 75g/km. This means that the taxable benefit arising on a zero emissions car costing, say £30,000 is £4,800, with tax payable of £960 for a basic rate taxpayer.

From April 2020, new ULEV rates will take effect, making cars with CO2 emissions below 50g/km the most tax-efficient for company car drivers. In summary, five new bandings are being introduced for full and/or part electric cars (hybrids). Fully electric (zero emissions) cars will attract an appropriate percentage of just 2%. This means that the tax benefit arising on an electric car costing say, £30,000 will be just £600. The resulting tax payable by a basic rate taxpayer will be £120 a year.

For cars emitting CO2 of between 1 and 50g/km, the appropriate percentage will depend on the car's electric range figure:

130 miles or more - 2%, 70 - 129 miles - 5%, 40-69 miles - 8%, 30-39 miles - 12%, Less than 30 miles -14%

ULEVs with CO2 emissions of between 50g-74g/km CO2 will be on a graduated scale from 15% to 19% (as is currently the case, diesel-only vehicles will continue to attract a further 4% surcharge) as follows:

CO2 emissions

51 to 54g/km 15%
55 to 59g/km 16%
60 to 64g/km 17%
65 to 69g/km 18%
70 to 74g/km 19%
75 or more 20%
Plus 1% per 5g/km
Up to a maximum 37%

Clean air all-electric cars will plummet to 2% under the new company car tax incentives from April 2020 - the incentives in the new tax bands are clearly designed to encourage ULEVs as a company car driver's car of choice.

HMRC win IR35 BBC cases

Following a series of defeats, HMRC have won a First Tier Tribunal (FTT) case concerning the employment status of three BBC presenters who used personal service companies (PSCs).

The case concerned the working arrangements for presenters Joanna Gosling, David Eades and Tim Willcox. Unusually, **the judges disagreed about the IR35 status of the presenters**, although they were unanimous that the 'imbalance of bargaining power' between the presenters and the BBC was a significant factor in the case, saying "The BBC were in a unique position and used it to force the presenters into contracting through personal service companies and to accept reductions in pay".

The Tribunal heard evidence that each was required to operate a PSC to receive their payments from 2003 and 2004 until 2014. HMRC had issued the three with tax demands amounting to £920,000, of which around £600,000 has been paid. The tax authority was seeking £300,000, which was understood to consist largely of employers' national insurance payments.

The judgment - a split decision resolved on a casting vote - said that the taxpayers had fallen foul of IR35 legislation which says that individuals who are employees in all but name should be liable for more tax.

However, this decision runs counter to other recent IR35 rulings involving payment arrangements for TV and radio personalities, as another FTT decided earlier this year that Lorraine Kelly was not liable to pay a £1.2m tax claim arising from her work via a PSC for ITV.

The BBC said: 'Recent hearings involving presenters from across the media industry have produced a range of outcomes and this split judgment further demonstrates the confusion of the tax system for those working in broadcasting.'

Around 100 other BBC presenters are thought to have provided their services via a PSC, suggesting that there could be further tribunal hearings in the pipeline.

Andy Chamberlain, deputy director of policy at the Association of Independent Professionals and the Self-Employed (IPSE) said: 'That this case has taken eight years and ended up with an uncertain split decision shows how confusing and unfit for purpose IR35 is.

'We will look at the judgement in detail but the uncertainty in the decision is likely to add to the chaos around this legislation. Recently, HMRC has lost the majority of these cases. There is little evidence that they or other experienced tax specialists are confident in how it works.

'We remain at a loss how the Treasury expects medium-sized businesses to accurately apply IR35 to their contractors from next year when HMRC and tax judges struggle.'

Successfully managing a change in leadership can be difficult for any business

Good communication and proper planning are key. A change of leadership should be viewed as both a challenge and an opportunity for any business. If you are promoting existing managers, you should be prepared for some challenging times. The transition into the top team is demanding and around 50% of new business leaders fail within 18 months of taking on their new leadership role. This is because longstanding management issues are only likely to surface once the new team is in place, and often they can take the new management team completely by surprise.

However, with proper succession planning, any nasty surprises can be avoided. A change in leadership can also provide the opportunity to move in a new direction, develop new products / services, enter new markets or drive innovation.

It is important for new business leaders to remain positive, regardless of the challenges they face. If the management team is positive and communications are up-beat, this is likely to influence the staff across the wider business and they are more likely to view the leadership change favourably. Changes in leadership often mean changes to processes, and different expectations. The changes should be communicated as an opportunity for the firm to develop and grow.

Deal with resistance quickly. Not everyone will adapt to a leadership change in a positive way. As soon as you identify team members who are resistant to change, speak with them to find out why. What are the areas that most concern them? Is their resistance negatively affecting other team members? It is the job of the management team to encourage and help team members understand the reasons for the changes and to help them accept it. Sometimes the best way to win over dissenters is to give them a change management project to own and run. This makes them part of the solution to the problem.

A leadership change is not the time to close your office door, step back and see what happens. Staff from all levels across the business should be encouraged to submit ideas and suggestions on how they can help with the transition. The leadership team should take time to understand the capabilities of the various departments across the firm. They should encourage debate and welcome both positive and negative feedback as part of the process.

Get Ready for ‘Off-Payroll’ Working Rules

Where large or medium-sized organisations are paying workers via personal service companies or agencies they will need to operate new procedures from 6 April 2020.

The new rules will apply to partnerships, LLPs and larger charities as well as limited companies. Only those organisations that would be classed as “small” under the Companies Act criteria will be outside of the new rules.

From 6 April 2020 the end user organisation will be required to determine whether or not the worker would be an employee of the organisation if directly engaged. That determination will need to be communicated to the agency supplying the worker so that income tax and national insurance is deducted from any payments.

The end user organisation should use the Check Employment Status for Tax (CEST) software on the HMRC website to carry out the determination. A copy of the determination should also be given directly to the worker.

HMRC's 2018-19 Annual Report Published

The National Audit Office has published a report on HMRC's 2018-19 accounts. The report shows that HMRC raised £627.98bn of tax revenues during 2018-19, an increase of £22.1bn (3.6%) on 2017-18. Of this total, around £250bn was paid in PAYE and National Insurance.

Currently, around 5.7m small businesses represent more than 95% of businesses in the UK. These businesses paid £115bn in corporation tax, VAT and other taxes during 2018-19. Small businesses are defined as having a turnover below £10m and fewer than 20 employees. At the other end of the scale, large businesses, of which there are around 2,000 (broadly defined as having a turnover exceeding £200m or £2bn in assets), were responsible for paying taxes of £135bn.

HMRC's operating costs for the year were £4bn, which represents around half a penny for every £1 of tax revenue raised. The UK's tax gap, the difference between tax that should be paid and what is actually paid, was 5.6% in 2017-18 an increase of 0.1% from 2016-17.

The report shows that £40.1bn of revenue collected was paid out in benefits and credits.

There has been an increased focus on helping people pay their tax quickly and easily online. According to the report, 19 million people have signed up to Personal Tax Accounts (PTAs) and 93.5% of self-assessment returns were completed online. With regards to Making Tax Digital for Business, HMRC have launched the new mandated service for digital record keeping and for filing VAT returns online. More than 93,000 businesses signed up for the pilot during 2018-19. MTD was officially launched on 1 April 2019, and sign ups had increased to over 500,000 by the start of July 2019.

HMRC are currently facing the huge, complex task of preparing for the UK leaving the EU. The Department currently has around 5,400 full-time equivalent employees working on Brexit preparations, building the customs, VAT and excise systems the UK will need and preparing taxpayers for leaving the EU, with or without a deal.

Ecommerce Clients - News

In the last 8 weeks we have:

- Assisted a client whose selling account was blocked to obtain a UK VAT registration number - in under 48 hours!
- Assisted a client with filing a German Vat return – it helped they spoke German!
- Developed a systematic method of extracting and summarising Amazon's confusing VAT accounting reports. No need for expensive Xero, A2X, Link my Books subscriptions for our clients!
- Appointed by three large clients whose (separate) accountants had each totally misunderstood VAT liability calculations and Amazon accounting.
- Helped a client obtain £150k of VAT refunds following a comprehensive and accurate submission to HMRC which resulted in just a one-hour VAT control visit. We were also able to help the HMRC's officers understand some aspects of Amazon accounting!

Tax-free expenses for home-workers

Providing certain conditions are met, **no tax liability will arise if an employer makes payments to employees for reasonable additional household expenses**, which the employee incurs in carrying out duties of their employment at home under 'homeworking arrangements'.

'Homeworking arrangements' are arrangements between the employee and the employer under which the employee regularly performs some or all of the duties of the employment at home. There is no requirement for any part of the employee's home to be used exclusively for the purposes of the employment.

HMRC will accept that homeworking arrangements exist where:

- there are arrangements between the employer and the employee; and
- the employee works at home regularly under those arrangements.

The 'regularly' condition will be met if working at home is frequent or follows a pattern. The fact that the days spent at home vary from week to week is not a bar to claiming the exemption.

The HMRC guidance also advises that:

'the arrangements need not be in writing but usually will be. They do not need to apply to all employees. The exemption does not apply where an employee works at home informally and not by arrangement with the employer. For example, it will not apply where an employee simply takes work home in the evenings.'

'Household expenses' are defined as expenses connected with the day-to-day running of the employee's home. Typically this will include the additional costs of utility bills, but there might also be increased charges for internet access, home contents insurance or business telephone calls.

To minimise the need for record-keeping, employers can currently pay up to £4 per week (£18 per month/£208 per year) without supporting evidence of the costs the employee has incurred. If an employer pays more than that amount, the exemption will still be available but the employer must provide supporting evidence that the payment is wholly in respect of additional household expenses incurred by the employee in carrying out his duties at home.

Questions and Answers

Q. Our house has always been owned jointly by myself, my mother and my sister. My sister and I now want to buy our own homes and want to make mum the sole owner of our current home. If we put the house in her sole name will she have to pay capital gains tax (CGT) on it?

A. Transferring the house into your mother's sole name will not trigger a liability to CGT, but it may have CGT implication for you and your sister. However, since you live in the property, it is quite likely that you would qualify for principal private residence (PPR) relief and no CGT charge would arise.

Q. I have recently started a new job and have been provided with a company car. I pay for fuel for private use but I can claim mileage for business journeys. Will I have to pay tax on fuel payments?

A. In addition to the company car benefit charge, employees have to pay tax on any fuel their employer provides that is used for private mileage. For 2019-20 this is calculated by multiplying the car's CO2 percentage by £24,100. So, if the percentage is 30, the tax charge for petrol is £7,230. For a basic rate taxpayer, the after-tax cash equivalent is £1,446 and for a higher rate taxpayer £2,892. The charge is the same regardless of whether you use 2 litres or 2,000 litres of fuel.

However, this tax charge can be avoided if you pay all the private fuel costs back to your employer. You need to keep accurate records (mileage logs and fuel receipts) to support such a claim to HMRC.

Your employer can give you a tax-free fuel allowance if you pay for fuel used for business travel in your company car. HMRC publish new advisory fuel rates four times a year. The most recent rates, apply from 1 September 2019.

HMRC accept that, where an employer reimburses an employee for the cost of fuel for business mileage in a company car at the above rates, no taxable benefit arises.

Q. I have just started my first job working for a building contractor. My boss says I need to register for tax as a Construction Industry subcontractor. How do I do this?

A. You need to register with HMRC for both self-assessment as self-employed, and under the construction industry scheme (CIS). Effectively these are separate registrations, but they can both be done at the same time.

In most cases you can register as self-employed by calling the HMRC Newly Self-employed Helpline on 0300 200 3504. If you are already registered as self-employed, but need to register under the CIS scheme, you should contact the CIS Helpline on 0300 200 3210.

The contractor for whom you are working will ask you for your unique tax reference (UTR) and you need to provide this before you are first paid, in order to determine which tax deduction rate to use.

Under CIS, a contractor must deduct 20% from your payments and pass it to HMRC. These deductions count as advance payments towards your tax and National Insurance bill. If you do not register for the scheme, contractors must deduct 30% from your payments instead.

The UTR is issued when you are first set up under self-assessment to complete a tax return. If you have not previously been required to prepare a tax return, you will be given a UTR when you register as self-employed.

For further guidance on registration and other obligations for subcontractors, see the Gov.uk website at https://www.gov.uk/what-you-must-do-as-a-cis-subcontractor.

Q. I am a qualified chiropractor and I have been running my own business for many years. I would now like to specialise in a particular area and have enrolled on a university course to obtain the relevant qualification. The cost is around £18,000 per annum and the course is three years in duration, during which time I intend to continue working part-time. Is the cost of the course deductible for tax purposes?

A. Expenditure incurred by the owner of a business on training courses for themselves is revenue expenditure if the course merely updates existing expertise or knowledge. Expenditure on a course which provides new expertise or knowledge is capital. HMRC accept that 'the line between the two may often be difficult to draw' and they may require further information from you to make a decision. HMRC's Business Income Manual provides further guidance at paragraph BIM35660.

Q. What is the statutory time limit for keeping VAT records?

A. Generally, you must keep all your business records for VAT purposes for at least six years (or ten years if the trader uses the HMRC VAT mini-one-stop-shop (VAT MOSS)). Records that you use for other tax purposes may need to be kept for longer periods. VAT records may be kept on paper, electronically or as part of a software program (e.g. book-keeping software) - but whichever method is used, the records must be accurate, complete and readable. HMRC can visit businesses to inspect record-keeping and impose penalties if the records are not in order. If the six-year rule causes serious storage problems or undue expense, or you need advice on records for other types of tax, then you should consult HMRC's VAT general enquiries helpline. HMRC may be able to allow you to keep some records for a shorter period.

Q. I own a buy-to-let property, which has a mortgage of £50,000 owing on it. I bought the property for £100,000 and it is currently worth around £150,000. What will be the capital gains tax implications if I pay off the mortgage and then sell the property?

A. The gross capital gain will be the difference between the sale price the purchase price, ie £50,000 (£150,000 - £100,000). A mortgage is not relevant to a capital gains computation unless, in rare circumstances, where a purchaser takes over responsibility for a mortgage (see HMRC's Capital Gains Tax manual at paragraph cg12706 for further information).

Need Help?

Please contact us if we can help you with these or any other tax or accounts matters.

We are committed to ensuring that all clients receive useful tax and business advice and ongoing support throughout the year. If you have a business problem (or opportunity) to discuss please call us.

In addition, if there's anyone else who you think would benefit from the newsletter, please forward the email to them or ask them to contact us to be added to the newsletter list.

New Clients Welcome

If you are not already a client of Hanley & Co we would be delighted to hear from you. You may be setting up in business or considering changing your accountants.

We offer all potential new clients a Free Unlimited Initial Consultation - with Absolutely No Commitment. We feel sure you will also benefit from receiving our free 50 page 'New Business Kit'.

About Us

Hanley & Co provide personal advice to all clients based on over twenty years' experience as practising accountants. We have clients across the North West of England and some even further a-field.

Visit our website http://www.hanleyandco.co.uk for more information. ICAEW CHARTERED ACCOUNTANTS

HANLEY & CO - ACCOUNTANTS YOU CAN TALK TO

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