Welcome...

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

This month we have increased the coverage of business advice and guidance in the newsletter. We hope you find this interesting and would love some feedback!

There's a lot here - and much of it will be 'not applicable'- you do not have to read it all!

If you just find a couple of items of interest then we have done our job!

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!**

Class 2 NICs to remain

In 2016 the government consulted on a proposed abolition of Class 2 National Insurance contributions (NICs) for the self-employed. This flat rate contribution, currently £2.95 a week is payable by the self-employed in addition to Class 4 contributions based on the level of profits. The flat rate contributions were due to cease on 5 April 2019 but will now continue "for the life of this parliament".

The reason for the u-turn (apparently) is to protect businesses owners with low profits or making losses. In order to maintain their NI Contribution record, many self-employed individuals voluntarily continue to pay Class 2 contributions despite their profits being below the £6,205 small earnings exemption. Having a full NI contribution history helps maximize an individual's entitlement to State Benefits. For example, full State Pension entitlement requires 35 years contributions.

With the abolition of Class 2 NICs, those with low profits or making losses would need to make voluntary Class 3 contributions (currently £14.65 a week, £761.80 a year) in order for that year to count as a contribution year.

CHECK YOUR CONTRIBUTION HISTORY

As mentioned above, in order to maximise entitlement to full State Benefits a full contribution record Is required. It is possible to check your National Insurance record online to see:

- what you've paid, up to the start of the current tax year (6 April 2018)
- any National Insurance credits you've received
- if gaps in contributions or credits mean some years don't count towards your State Pension (they aren't 'qualifying years')
- if you can pay voluntary contributions to fill any gaps and how much this will cost

Help-to-Save accounts go live

Many people on low incomes who wish to build up a savings pot can now register for a government-incentivised Help-to-Save account. The launch of the new account follows an eight-month trial, with **over 45,000 customers who deposited over £3 million.**

The new scheme is easy to use, flexible and secure, will help those on low incomes build up a 'rainy day' fund, and encourage savings behaviours and habits. How much is saved and when is up to the

account holder, and they don't need to pay in every month to get a bonus.

The scheme, administered by HMRC, will be open to UK residents who are:

- entitled to Working Tax Credit and receiving Working Tax Credit or Child Tax Credit payments;
- claiming Universal Credit and have a household or individual income of at least £542.88 for their last monthly assessment period (though note that payments from Universal Credit are not considered to be part of household income);
- People living overseas who meet either of these eligibility conditions can apply for an account if they are:
- a Crown servant - or their spouse or civil partner;
- a member of the British armed forces - or their spouse or civil partner.

Account holders can save between £1 and £50 every calendar month and accounts last for four years from the date the account is opened. After two years, savers get a 50% tax-free bonus on savings. If saving continues there is another 50% tax-free bonus after four years.

On maximum savings of £2,400 over 4 years, the overall bonus would be £1,200. To apply, savers can visit www.gov.uk/helptosave or use the HMRC app. Opening an online account should be straight-forward and take less than five minutes.

VAT on holiday accommodation

Letting of residential accommodation is generally an exempt supply for VAT purposes. However, this exemption does not apply to holiday accommodation (includes furnished and non-furnished holiday lettings. The definition of 'holiday accommodation' for these purposes includes property that is advertised or held out as holiday accommodation and those consider suitable for holiday or leisure use. It is not restricted to periods of letting or availability.

Supplies of holiday accommodation are therefore taxable supplies and should be standard-rated, which means that if the rental income goes above the VAT registration threshold (currently £85,000 per year), the landlord will have to register for VAT and collect VAT from the tenants.

Care is needed when applying the rules as there are exceptions - for example, for longer stays. A UK property let to visitors under an Airbnb (or similar) arrangement should generally qualify as holiday accommodation, but care should be taken.

VAT applies once the property provider has VAT registered, which is compulsory where their taxable turnover for 12 months exceeds the current £85,000 threshold.

There are separate rules for 'non-established' providers of VATable supplies (i.e. providers based outside the UK), where a zero registration threshold applies. Those in such a position will need to consider their obligations and responsibilities carefully.

It is possible to voluntarily register for VAT before reaching the turnover threshold. This may be beneficial to those seeking to recover VAT. However, the cost-benefit analysis of price increases should be measured against VAT recovery potential before making a voluntary registration application. By not charging VAT, the property provider has a competitive advantage over hotel chains, but in the case of well situated city properties, adding VAT may not be overly disadvantageous for bookings.

VAT registration applies to the provider, i.e. the owner of the property. In the case of an individual, this VAT registration will render not just their property income, but all potentially taxable income subject to VAT, which could be onerous. By the same token, all such personal income counts towards the VAT registration threshold, so starting to let out a property could tip an individual over the VAT registration threshold.

For larger Airbnb type operations, involving multiple properties, it may be preferable (for VAT) to own the properties in a separate entity such as a company or even a partnership. Multiple tax and legal considerations apply to transferring property ownership, but for VAT registration purposes at least, a partnership route might be a more viable option than transferring the properties to a separate corporate entity.

A simple decision to generate additional income from an existing asset may not always be the straightforward option it appears. Sensible up-front structuring and advice can mitigate potential downsides.

Being busy versus being productive

In today's hyper connected business environment, it seems we are all busier than ever. Whether we are responding to emails outside of office hours or taking a call while on the way to a meeting, there is so much going on in our work lives that it’s easy to lose focus on getting the most important work done.

Focus on being effective

Busy people tend to have a good work ethic. That is why they are always busy. The problem is not that they don’t work hard, but that they don’t work smart. Productive people focus on being effective. They are constantly looking for better ways to achieve the same outcome.

Don't sweat the small stuff

Busy people tend to get lost in the minor details whereas productive people tend to focus on the macro issues. Once you get from A to B in the most efficient way possible, it doesn’t really matter which route you took to get there or what else you did along the way. Focus on hitting each milestone along the way to achieving your business objectives and don’t sweat the small stuff.

Set your own direction

Busy people tend to be reactive and let others set their direction. Productive people tend to set their own direction and they are proactive in moving forward with each of their business objectives. Industry norms can try to set your direction of travel. However, if you want to move forward in a way that embraces new and innovative ways of doing things, it’s best to choose your own path to achieving each of your objectives.

The power of why?

Busy people tend to say yes and don’t really challenge why others are asking them to do things. Productive people tend to ask "why"? They challenge others with questions like "Why are we doing this" and "how does investing time in this particular activity help us to achieve the objectives of our business?"

Don’t try to do everything yourself

Busy people tend to do everything themselves. More productive people tend to use the tools and resources available to them in order to get things done in the most efficient manner. If a particular task has a high rate of recurrence or isn’t a particularly good use of your time, either hire someone cheaper to do it or outsource it.

HMRC launch MTD campaign

According to recent research undertaken by the Institute of Chartered Accountants in England and Wales (ICAEW), over 40% of businesses that will be affected by Making Tax Digital (MTD) for VAT are not yet aware of it. With only six months to go until MTD goes live for some businesses in April 2019, HMRC have only recently launched a major communications campaign to try and build awareness amongst small businesses.

The ICAEW survey also shows that although there has been a significant increase in the number of businesses now using accounting software, a quarter of all businesses are still using a paper based accounting system - unchanged from two years ago. Paper based records will not be permissible for MTD for VAT.

From 1 April 2019, MTD for VAT will become compulsory for VAT registered businesses making annual taxable supplies of over £85,000. New rules will make digital record keeping for VAT compulsory as well as introducing a new requirement to file VAT returns directly from software. Many businesses currently type the figures for their quarterly VAT return directly into a free form provided on the government's GOV.UK website. In future all VAT registered businesses within the scope of MTD will have to use accounting software to complete their VAT returns.

Overall, 38% of all UK businesses now use accounting software for keeping their accounting records, a significant increase since 2016. This increase seems to have come from businesses which had previously been using a mixture of electronic and paper-based systems.

Only 54% of VAT registered businesses currently use accounting software. The proportion of all businesses relying on paper based records alone remains unchanged at 25%, and this includes 13% of those businesses that will need to implement MTD for VAT.

Of those businesses we surveyed, 34% will be relying on their accountant or tax adviser to deal with the changes for them, 20% will be buying new accounting software and 15% have done so already. However, 20% of businesses that will need to implement MTD for VAT have not yet made any preparations for it.

HMRC have issued new guidance on how VAT businesses and other VAT entities can get ready.

The guidance confirms that the pilot, which started in April 2018, is still currently in a private stage and available only to invited volunteer VAT businesses and their agents. HMRC will continue to limit the number and types of business invited to join the pilot, stating: 'This is so we can work with software providers, testing our systems and their products on a small scale before opening Making Tax Digital to a wider audience.'

The latest guidance also states: 'We'll publish details of the VAT software available later in the year when we open the VAT pilot to more businesses'

Interestingly, the guidance also advises that HMRC will give businesses until 31 March 2020 to make sure there are digital links between software products. Before that date, cut and paste will be an acceptable way to transfer information.

The exception to this is where return information is to be transferred to a software product enabled for an Application Programming Interface (an API provides a secure link between software and HMRC) and designed to submit the 9-box VAT return (such as bridging software). In those circumstances, the transfer of information must only be digital.

Whilst the ICAEW says it is keen to help make MTD a success and also ensure that businesses get this right, it believes that preparation time is running out.

It is worth noting that of course, not all VAT registered businesses will be within the scope of the new rules. Around 40% of all VAT registered businesses are registered voluntarily, their turnover being below the VAT threshold. Such businesses will not fall within the scope of MTD from April 2019.

IT consultant wins IR35 Personal Service Company case

The government have been consulting on extending the personal service company rules that currently apply to public sector workers to those in the private sector, but in the meantime, tax tribunal decisions are still being decided against HMRC.

In a recent case involving an IT consultant working on various projects to implement the new Universal Credit system, the First Tier Tax Tribunal decided that the consultant would not have been an employee if directly engaged. A key factor was that the level of control over the consultant fell far below the sufficient degree required to demonstrate a contract of service.

.. and Football referees are self employed

The degree of control was also held to be a critical factor in determining that football referees in charge of matches in the Championship and lower leagues were self-employed. HMRC were arguing that the referees should be taxed as employees and subject to PAYE.

Interestingly, those refereeing Premier League matches are employees of the Premier League.

HMRC are expected to appeal the decision of the First Tier Tribunal.

Tax efficient childcare schemes

Earlier this year the government announced that no new childcare voucher schemes could be set up after 5 October 2018. This was a six-month extension from the previous 5 April 2018 end date. If those employers offering such schemes at 5 October are prepared to keep administering their scheme then they will continue to be available but will eventually be phased out.

The current scheme allows employers to provide vouchers to employees to pay for care of their children up age 16. Vouchers to the value of £55 a week can be provided tax free to basic rate taxpayers with differing tax-free amounts for higher rate and additional rate taxpayers.

The replacement scheme is the government's "tax free" childcare account which started this year for children up to age 12. Under this scheme the government tops up the savings in the childcare account by 25% up to £2,000 per child per year (£4,000 for a disabled child).

Thus, savings of £8,000 would be topped up by the government to £10,000 and the £10, 000 could then be used to pay Ofsted registered childcare providers such as nursery fees, childminders, after school clubs and summer camps.

Unlike childcare vouchers, the new childcare accounts will be available to both employees and the self-employed.

For those already in childcare voucher schemes it may be beneficial to switch to the new childcare account and we can help you calculate whether or not that would be beneficial.

Marketing to Millennials

Born between 1980 and 2000, Millennials are now a key target market for businesses. So how do you market your products and services to this tech-savvy generation?

Millennials were the last generation to have witnessed the pre-digital era and they were also the first generation to fully experience the internet age. We have all read articles about how Millennials are difficult to manage, move jobs frequently and aren't very compatible with traditional business or employment models.

However, Millennials have now reached an age where they have money to spend. They are also moving into more senior roles in businesses and are making purchasing decisions. As such, businesses need to create new marketing strategies which target this generation effectively.

Millennials tend to be drawn to brands which appear to be aligned to a cause. Therefore, your marketing messages should show the importance of what you and your firm do and provide reasons as to why Millennials should become part of that cause by becoming a customer.

Your messaging should therefore focus on why you do what you do. Millennials are concerned about the "why" rather than the "what". It's not about what you and your company do, it's about why you do it.

Millennials are also interested in new and innovative ideas, particularly those that drive convenience. For example, Uber, Airbnb and Amazon all provide services which utilise innovative technology in order to deliver a more convenient service. Millennials also like to communicate. They don't like being marketed to by faceless corporations. Instead, they want to interact with your firm through technology such as live chat on Facebook or posts on Instagram.

Effective mid-year staff performance reviews

Conducting mid-year performance reviews gives managers the opportunity to check in with employees in order to ensure that their objectives, project work and general day-to-day jobs are aligned with the rest of the business.

Even if your firm doesn't have a formal system in place for conducting mid-year reviews, it is still worth taking the time to sit down and have a catch up with each of your team members.

The mid-year review meeting is a great opportunity to re-visit and refresh goals and objectives. It can also help you to ensure that your team members are fully aware of expectations and can help to prevent surprises during year-end performance appraisal conversations.

Mid-year reviews provide a good opportunity to ask employees for feedback, what is and isn't working, as well as suggested improvements to processes and procedures across their area of the business.

In advance of a mid-year review meeting, prepare to ask questions relating to progress towards delivery of goals and objectives. It is also a good idea to seek feedback from others in order to give you the opportunity to address any issues around the employee's performance and interactions with others. Be ready to share any positive feedback received with the employee as doing so can be a great motivator.

Help your employees to prepare themselves prior to their review, in order to make the most of the process. You could encourage your team members to view feedback as an opportunity to learn more about themselves, professionally. You can also ask them to prepare questions around key projects or areas of concern. A good manager will also remind their employees not to take feedback personally.

Finally, you should plan to discuss any firm or departmental changes, which may affect the employee's goals and objectives for the rest of the year. Following the review send a follow up email to the employee which notes the key actions/outputs from the meeting and any changes to their objectives for the rest of the year.

October questions and answers

Q. I bought my house in 1998 and I lived in it until 2000 when my employer required me to work in Spain. I returned to live in the house in 2005 and have lived there until now. I have never owned any other properties. Will I qualify for full private residence relief for capital gains tax purposes when I sell my home?

A. Based on the information provide, you should be entitled to full relief.

The qualifying periods of absence are:

a) absences for whatever reason, totalling not more than 3 years in all

b) absences during which you're in employment and all your duties are carried on outside the UK

c) those totalling not more than 4 years when either

- the distance from your place of work prevents you living at home
- your employer requires you to work away from home in order to do your job effectively

You'll keep the exemption for absences b) and c) if you can't return to your dwelling house afterwards because your existing job requires you to work away again. The absences at b) and c) also apply if the employment was that of a spouse or civil partner.

Q. I would like to give a very close friend a cash wedding gift of £10,000. What are the inheritance tax implications of making this gift?

A. The cash gift is likely to qualify as a potentially exempt transfer (PET), meaning that if you survive for seven years after making the gift, it will be completely free from inheritance tax. If you die within the seven- year period, taper relief may be available.

Depending on your circumstances, it may be possible to combine the various annual exemptions to reduce the PET. For example:

Gift £10,000

Less annual exemptions from current and previous years (£6,000)

Less gift on marriage (£1,000)

Reduced potentially exempt transfer (PET) £3,000

Q. I do not live in the UK, but wish to set up a UK company of which I will be the only director. The company is not a property company, and there will be no UK employees in the short term. Will the company be liable to tax in the UK or, as sole owner of the company, in the country where I reside?

A. It is important to know whether a company is UK resident. If it is, subject to certain conditions, it will be chargeable to UK tax on its worldwide income and gains. Non-UK resident companies may be subject to UK corporation tax only if they have a permanent establishment in this country.

HMRCs International Tax Manual (paragraph INTM120030) confirms that:

A company is resident in the UK for the purposes of the Taxes Acts if

- it is incorporated in the UK (with certain exceptions) or
- the central management and control of its business is in the UK.

Even if a company is not incorporated in the UK, it is still resident in the UK if it is centrally managed and controlled in the UK. One of the leading cases on this issue, De Beers Consolidated Mines Ltd v Howe (1906) 5 TC 198, involved a company that was registered in South Africa where it worked diamond mines. The company's head office and shareholders' general meetings were held in South Africa, but the directors' meetings took place in both South Africa and the UK. The majority of directors who made the key decisions lived in the UK.

In his judgment, the Lord Chancellor, Lord Loreburn, stated:

'A company resides ... where its real business is carried on ... and the real business is carried on where the central management and control actually abides.'

Therefore, even though the company was incorporated in South Africa and its main trading operations were there, the House of Lords held that the company was UK resident because the majority of the directors who had the overall control were situated in London.

There is an additional requirement for dual resident companies, effective from 30 November 1993. To resolve how a dual resident company is to be taxed, reference is made to the double tax treaty (if any) that the UK has with the other country. Most double tax treaties have a tie-breaker clause to determine which country has the taxing rights. If residence has been or would be awarded to the UK treaty partner, the company is called 'treaty non-resident' (TNR). Corporation Taxes Act 2009, s 18 provides that a TNR company is not resident for UK tax purposes. In summary, this means that a dual resident company is resident in the country that has priority per the relevant double tax treaty.

October key tax dates

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1 - Due date for payment of Corporation Tax for the year ended 31 December 2017

5 - If a Tax Return has not been received, individuals and trustees must notify HMRC of new sources of income and chargeability in 2017/18

14 - Return and payment of CT61 tax due for quarter to 30 September 2018

19 - Tax and Class 1B national insurance due on PAYE settlements for 2017/18

19/22 - PAYE/NIC, student loan and CIS deductions due for month to 5/10/2018 or quarter 2 of 2018/19 for small employers

Need Help?

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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

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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 Start Up' report or the easy to read 'How To Pay Less Tax' guide. Please contact us to request your copies now.

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.
HANLEY & CO - ACCOUNTANTS YOU CAN TALK TO

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