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## MAKING TAX DIGITAL FOR VAT GUIDANCE ISSUED

HMRC have now issued their detailed guidance on the digital record keeping and return requirements for Making Tax Digital (MTD) for VAT.

- ⇒ [VAT Notice 700/22](#) clarifies that spreadsheets may still be used to keep business records provided that there is bridging software that links to the Government gateway.
- ⇒ There will however be a one year "grace" period during the first year of MTD when businesses will not be required to have digital links between software programs, referred to in the VAT Notice as a "soft landing".
- ⇒ The VAT notice includes a number of helpful examples illustrating different accounting systems and the digital links required to comply with MTD for VAT.
- ⇒ The VAT notice is essential reading for all VAT registered businesses.

### WHEN DOES MTD FOR VAT START?

The Making Tax Digital rules apply from your first VAT period starting on or after **1 April 2019**. A 'VAT period' is the inclusive dates covered by your VAT Return.

For example, where a business submits quarterly returns covering the periods to 28 February, 31 May, 31 August and 30 November, the business will need to comply with Making Tax Digital rules for the VAT quarter starting 1 June 2019 and ending on 31 August.

## MAKING TAX DIGITAL

### “SOFT LANDING” FOR MTD FOR VAT FOR THE FIRST YEAR

For the first year of MTD for VAT (VAT periods commencing between 1 April 2019 and 31 March 2020) businesses will not be required to have digital links between software programs.

The one exception to this is where data is transferred, following preparation of the information required for the VAT Return, to another product (for example, a bridging product) that is Application Programme Interface (API) - enabled solely for the purpose of submitting the 9 Box VAT Return data to HMRC. The transfer of data to this product must be digital.

For the first year of MTD for VAT (VAT periods commencing between 1 April 2019 and 31 March 2020), where a digital link has not been established between software programs, HMRC will accept the use of cut and paste as being a digital link for these VAT periods. However, for VAT periods starting on or after 1 April 2020, there must be a digital link for any transfer or exchange of data between software programs, products or applications used as functional compatible software.

### USE OF SPREADSHEETS IN PREPARING VAT RETURNS

Example 3 in the VAT Notice describes a business that uses a spreadsheet and bridging software from April 2019, which allows the information to be transferred to HMRC via an API. It uses a spreadsheet to record all sales, purchases, and expenses in a digital format. The VAT Return is then prepared within the spreadsheet, using formulae already written into the spreadsheet.

The VAT Return information is then sent via a mandatory digital link to bridging software, which digitally submits the information directly to HMRC. Example 6 shows how a spreadsheet would be acceptable in order to consolidate VAT information prior to submit a Group VAT return.

**If you haven't already done so, please contact us to help you get ready for this significant change in VAT accounting and reporting.**

## SIGNING OVER YOUR HOME TO YOUR CHILDREN



The growth of house prices has come as a shock to many people, who discover in later years that they are wealthy beyond their wildest dreams. But this wealth comes with drawbacks. The taxman will help himself to a large slice of it when you are gone, while children and grandchildren cannot get on the property ladder. You can give your property to your children at any time, even if you still live in it. But you should be aware of the costs you could face.

### Inheritance tax

Inheritance tax, or IHT is charged on your entire estate, and anything you leave above £325,000 would be taxed at 40%. (There are some exemptions, which might allow a family home of £900,000 to be inherited without IHT in the current tax year).

You could make an outright gift of the house. If you were to survive for seven years, there would be no IHT bill. If you died within seven years, the property would fall back into your estate for IHT purposes. Note that if you sign over your house but still live in it, this is regarded as a "gift with reservation of benefit", meaning that the house remains part of your estate on your death, even if you live beyond those all important seven years. One way to get around this is by paying rent to your children. It must be the market rent as charged for similar local rental properties. Your children will then be liable for income tax on the rent you pay them.

### Capital gains tax

Capital gains tax (CGT) applies where a property is not a principal residence. It is not charged on the home you live in, but it could apply if your child does not live in the property when transferred. They could be charged on the increase in value when they come to sell it. This will also apply to a second or holiday home. It is regarded as an investment, and CGT will be charged on any increase in value between first owning it and giving it away.

### You could become homeless

Once you have signed over your property, you will no longer be the legal owner. If you fall out with your children, or if they want to rent or sell the property or live there themselves, you could be evicted. Another scenario is divorce. Your son or daughter's ex would have a claim against their estate, which would of course include your home. If your son or daughter was to become bankrupt, the property would form part of their estate, and at risk from creditors. If you outlive your children, the property will be passed on to their beneficiaries, which are unlikely to include you.

### Care fees

Your local council will charge if you go into a care home. They could view a transfer as "deliberate deprivation of assets" to avoid residential care fees and could reverse the transfer to allow them to take fees for your care.

### What should you do?

Signing over a property has tax and other financial implications.

**Seeking specialist advice before making any decision is essential.  
Call us to discuss further.**

## **RULES FOR 'RENT A ROOM' RELIEF TO BE TIGHTENED UP FROM 6 APRIL 2019**

HMRC propose to restrict the availability of "rent a room" relief to situations where the taxpayer is living in the let property for at least some of the time that the accommodation is let. Hence renting out a house during Wimbledon fortnight while the owners are absent would not qualify from 6 April 2019!



Rent-a-room relief was introduced in 1992 to encourage individuals to make spare capacity in their homes available for rent. The government intended this to increase the quantity and variety of low-cost rented accommodation, giving more choice to tenants and making it easier for people to move around the country for work.

Currently rent-a-room relief gives relief from income tax for up to £7,500 of gross rental income to individuals who let furnished accommodation in their only or main residence.

## **CGT ON PROPERTY SALES DUE WITHIN 30 DAYS FROM 2020**

Draft legislation in the next Finance Bill will introduce significant changes to the reporting of residential property disposals and the payment of CGT from 6 April 2020.

Currently non-UK resident taxpayers disposing of UK residential property are required to report the disposal to HMRC within 30 days.

The new legislation extends this reporting obligation to UK resident taxpayers and at the same time will introduce a new payment on account regime.

This is yet another attack on buy to let landlords who currently pay CGT on property disposals on 31 January following the end of the tax year in which the disposal took place so this change will be a significant acceleration of the payment date.



## Pension Spotlight...

### CHECK YOUR PENSION SAVINGS ANNUAL ALLOWANCE

HMRC have updated their guidance on the rules for carrying forward the unused pension savings annual allowance, together with a calculator on their website. For most taxpayers the maximum amount of pension savings that qualifies for tax relief each tax year is £40,000. It is possible to increase this amount by utilising unused relief brought forward from the previous 3 tax years, provided the individual was a member of a pension scheme that year.

The brought forward relief from the earliest year is utilised before later years. Thus for the current tax year 2018/19 the unused relief from 2015/16 may be utilised in addition to the current year relief, followed by 2016/17 and then 2017/18.

### 2015/16 PENSION ANNUAL ALLOWANCE LAPSES ON 5 APRIL 2019

To utilize the 2015/16 unused relief any additional pension savings would need to be paid to the pension fund by 5 April 2019, otherwise the relief from 2015/16 will lapse.

Note however that for some taxpayers the method of calculating unused relief for 2015/16 is extremely complicated as the government changed the pension rules part way through the year on 8 July 2015.

The amount of pension allowance will depend on the pension input period of your scheme and we can assist you in calculating the 2015/16 relief if you have not already had full relief.



## Pension Spotlight...

### **TAPERED PENSION TAX RELIEF FOR THOSE WITH HIGH INCOME**

For most taxpayers the maximum pension input annual allowance is currently £40,000.

However, from 2016/17 those taxpayers with 'adjusted income' over £150,000 and 'threshold income' over £110,000 receive a tapered annual allowance. For those persons affected the allowance tapers by £1 for every £2 that their adjusted income exceeds £150,000 down to a minimum annual allowance of £10,000.

The calculations of 'adjusted income' and 'threshold income' are complicated and we can assist if you believe that this restriction applies. There are ways in which these figures can be reduced so as to minimize the effect of the restriction.

### **AND YOU MAY HAVE TO PAY TAX IF YOUR PENSION SAVINGS ARE TOO HIGH!**

If your pension savings are more than your annual allowance for the tax year, and you do not have unused annual allowances from the 3 previous tax years to cover the difference, you'll have to pay tax on the excess.

You'll get a statement from your pension provider telling you if you go above the annual allowance. If you're in more than one pension scheme, ask each pension provider for statements. This will help you work out how much you've gone above the allowance. There is a calculator on the HMRC website but we can of course help you check that you have not exceeded the limits.

As you can see from the above, despite the "simplification" of pensions by George Osborne in 2015, the system is still extremely complicated and we are expecting yet further reforms in future Budgets. Nevertheless, saving in a pension is still very tax-efficient as for a higher rate taxpayer the net cost of saving £10,000 in a pension is currently £6,000.



## NEW VAT RULES FOR BUILDING TRADE IN 2019

**Under new rules due to come in on 1 October 2019 builders, sub-contractors and other trades associated with the construction industry will have to start using a new method of accounting for VAT.**

The measure is designed to combat VAT fraud in the construction sector labour supply chain which HMRC argue presents a significant tax loss. HMRC has now published draft legislation to introduce the Reverse Charge for Construction Services.



Under the proposed new rules, supplies of standard or reduced-rated building services between VAT-registered businesses in the supply chain will not be invoiced in the normal way. Under the reverse charge a main contractor would account for the VAT on the services of any sub-contractor and the supplier does not invoice for VAT. The customer (main contractor) would then account for VAT on the net value of the supplier's invoice and at the same time deducts that VAT - leaving a nil net tax position. This is intended to ensure that VAT is correctly accounted for on supplies by sub-contractors.

### CONSTRUCTION WORK AFFECTED

The reverse charge will apply to a wide range of services in the building trade, including construction, alteration, repairs, demolition, installation of heat, light, water and power systems, drainage, painting and decorating, erection of scaffolding, civil engineering works and associated site clearance, excavation, and foundation works. The definitions have been lifted directly from the CIS legislation.

### EXCLUDED WORKS

Professional services of architects or surveyors, or of consultants in building, engineering, interior or exterior decoration or in the laying-out of landscape are not covered by the new rules. The draft legislation sets out other work to which the reverse charge does not apply.

## MAKE MORE OF SOCIAL MEDIA



**Your business can use social media to deliver great customer experiences and develop deeper relationships.**

Creating good content and distributing it over social media can be a very effective way to grow your business. That's why businesses like PWC, Amazon and McKinsey invest huge amounts of resources into producing great content that people want to consume.

Producing content for your target audience doesn't have to involve massive resources. In fact, you can use anything from captioned photos, screenshots, or a few short videos to deliver simple content that keeps people interested. If you have time, producing relevant articles and sharing them on your LinkedIn or Twitter feeds can be a good way of getting people to engage with your firm. Make sure you use an attention-grabbing caption as part of this.

In order to create effective content, you need to be ready to seize opportunities as they present themselves. Think about how you can act upon the many opportunities you and your team encounter, and turn it into relevant and timely content.

For example, if there is a hot topic on the news that relates to your industry sector, you can respond with your view on Twitter or LinkedIn. Maybe your business offers a product or service that can help solve a problem that is identified in the news. Take the recent GDPR regulations as an example. If you run an IT company that can help businesses respond to a Subject Access Request, then it may be worth responding to GDPR related articles in the press, via social media in a way that identifies your product or service as a solution to the problem faced by potential customers.

The key goal of your content is to build a relationship with the people consuming it, so they build familiarity with your brand and will trust you enough to give you their attention when you have something to say in the future.

Creating relationships with people is key to developing brand loyalty. People buy people. As such, it is important that your social media presence features individuals and groups of people from your firm. People don't want to build relationships with a faceless corporation. If you can deliver relevant and interesting content consistently to your target audience, you will build your brand and secure new business development / sales opportunities as a result.



## WHAT IS THE 2019 LOAN CHARGE?

This is a tax charge on any outstanding loans that exist as a result of a disguised remuneration tax avoidance scheme. It applies to any loans that were taken out under a disguised remuneration scheme since 6 April 1999.

The most common schemes were Employee Funded Retirement Benefit Schemes (EFRBS) and Employee Benefit Trusts (EBT). When used for tax avoidance, both involved the diversion of employment income to a trust; the trust would then 'loan' the employment income to the individual (meaning no PAYE/National Insurance tax was paid) who sought to benefit from the Scheme.

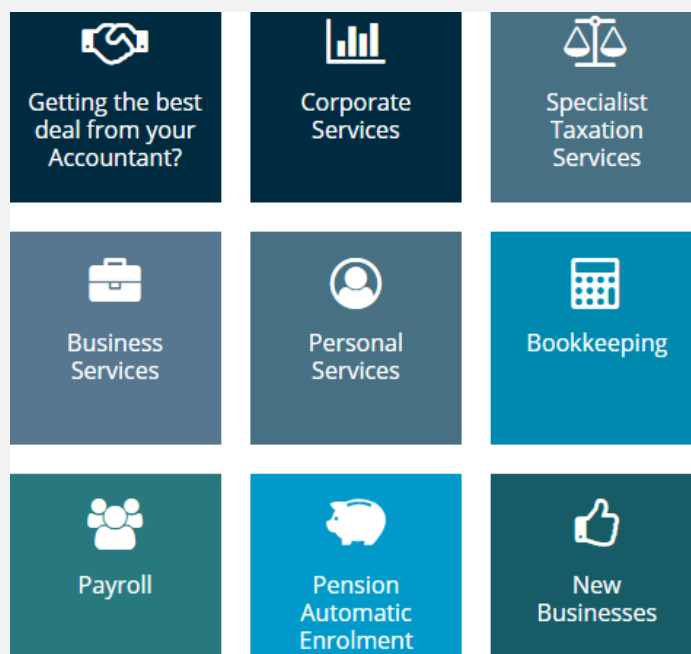
It is the responsibility of the employer/company to pay the 2019 Loan Charge under PAYE legislation. The employer is then expected to pass this cost on to the individual.

Whilst the initial liability falls to the employer, it can be passed to the individual beneficiary of the scheme by HMRC if unpaid.

By contacting HMRC to settle your tax affairs now, you can obtain certainty of what you owe and if required, arrange a payment plan.



## MNA WEBSITE



Remember we have a comprehensive website at <https://www.marslandnash.com> which contains full details of all of our services, as well as:-

- ⇒ Latest accounts and tax news
- ⇒ Downloads section which includes all our newsletters
- ⇒ Filing deadlines pages
- ⇒ Current tax rates and information pages

Plus much more!