Tax Wire

Marsland Nash Associates

Summer Edition : Issue 26
Newsletter Date : July 2017

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Plan to be strong and flexible

Confucius said; 'The green reed which bends in the wind is stronger than the mighty oak which breaks in a storm'.

We can help your business be that green reed, which reacts quickly and flexibly to changing commercial conditions, and to new regulations.

We know the business environment will come under some pressure over the next few years. There will be challenges for businesses of all sizes if the UK does pull out of the European single market, as the free movement of goods and people between the UK and EU member states will no longer be guaranteed. Opportunities for those who export goods may expand, partly due to the weakened position of UK currency, but the nature of those external markets will certainly be different to what is currently on offer.

We are braced for another Budget later this year, in which the Chancellor will explain the new Government's vision for the future. This will certainly herald changes to the tax system, some of which may be back-dated. For example, a number of tax laws were put on ice when the General Election was called, and some of those laws could be reintroduced. However, more radical tax changes may follow as a result of trade-offs between the parties in a minority Government. Expect turbulence ahead.

Whatever the future holds, it is likely to involve a greater use of digital systems to communicate with your customers and with HMRC.

If your accounting system could do with updating, we should talk about how you can prepare for the forthcoming digital revolution, which is known as Making Tax Digital.

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Claim back SDLT

If you bought a house or flat after 1 April 2016, you may have paid a stamp duty land tax (SDLT) supplement of 3% on the entire value. This supplement is generally not due when you replace your main home, even if you end up owning more than one residential property after the purchase.

However, when you buy your new property before you sell your former main home, the SDLT supplement is initially payable. You can then reclaim the SDLT 3% supplement if the sale of your former home is completed within three years of your new purchase.

The SDLT can be reclaimed either online or by post using form SDLT16, which can be completed online and printed off. You will need the SDLT reference for the purchase.

The claim must be made by the later of: three months from the date of completion of the sale of the former home (i.e., the most recent transaction), or 12 months from the filing date of the SDLT return (which is 30 days from the completion of the purchase). If this deadline is missed you will lose the opportunity to reclaim the SDLT supplement.

Where your new home is in **Scotland**, Land and Buildings Transaction Tax (LBTT) applies in place of SDLT. The 3% supplement still applies, but you only have 18 months in which to replace your main home.

From 1 April 2018 **Wales** will have its own version of SDLT, with different rates and thresholds. If you are looking to buy a property in Wales it may be best to complete the purchase before next April.

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Making Tax Digital

Making Tax Digital (MTD) is a project to transform the UK tax system so that accounting data flows into HMRC digitally and at least quarterly. The General Election has created a temporary pause in MTD, but it is clear that the project will continue, whatever the result of the election, as HMRC has invested too much in MTD to scrap it.

Individuals with total business or rental income of less than £10,000 per year won't have to make periodic reports under MTD. Most other businesses and landlords will have to use accounting software to submit details of income and expenses to HMRC, and make a final return of all other income.

We will be able to do this for you.

If your unincorporated business turnover is larger than £10,000 but less than £85,000 per year, you will be required to start quarterly reporting under MTD in 2019/20. Most other unincorporated businesses will commence MTD reporting in 2018/19, and companies will start MTD reporting in 2020/21. Large partnerships with turnover of £10 million or more will also join MTD in 2020/21.

These commencement dates are not set in stone, and the MTD timetable could be revised after the election. This would be welcomed, as the software companies need more time to produce accounting software to suit the needs of all types of taxpayer, and at various prices. HMRC has promised that free software will be available to the smallest unincorporated businesses, who have no employees, and who are not VAT registered.

You may also need some time to review your own accounting records. If your business income and expenses are mixed up with your personal expenses in one bank account, reporting under MTD will be very difficult.

Let's talk about the small changes which could make recording your expenses much easier.

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Public sector contracts

IR35

When you work as a contractor through your own personal company, you will be aware of the IR35 rules, which have been around since April 2000. If you contract for a public sector body (PSB) you should be aware that the application of the IR35 rules has changed significantly since 6 April 2017.

For contracts in the public sector the decision as to whether the individual worker is within IR35 now lies with the end client – the PSB. This organisation is supposed to use an online employment status tool provided by HMRC to help it reach a conclusion on the worker's IR35 status, but most don't.

If the PSB decides that IR35 does apply, the fee-payer, who is normally the employment agency who arranged the contract, must deduct tax and NI from the amount invoiced by your company. No allowance is made for the 5% expenses normally permitted, or for any pension contributions your company may pay on your behalf.

If the PSB decides that you are outside IR35, the fee-payer can pay your company without deducting tax or NIC. However, the agency continues to be liable for PAYE and NIC due, should HMRC decide that the IR35 decision made by the PSB was incorrect.

To avoid difficulties, some public bodies are taking contractors on to their payrolls, which is what the Government wants them to do. However, most public bodies can't afford to pay the pension contributions and benefits that workers are entitled to, so will continue to engage contractors.

Before you agree to a new contract, check whether the end client is part of the public sector. This includes any organisation which is covered by the Freedom of Information Act, such as police, schools, NHS, local authorities and the BBC. Top-secret spying agencies: (GCHQ and MI5) are not covered. You may need to revise your fees to cover the tax deductions.

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Inheritance tax nil rate band

After your death, your relatives will have to pay inheritance tax (IHT) at 40%, if the net value of your assets exceeds £325,000. A discounted rate of 36% applies if you leave at least 10% of your net estate to charity.

Where you leave the value of your home to a direct descendant, an extra IHT nil rate band of £100,000 applies, increasing the total nil rate band to £425,000. The home-related nil rate band increases by £25,000 each year until it reaches £175,000 from April 2020.

Those who die after 5 April 2020 could have an IHT-free band worth £500,000, which may be doubled for a married couple or civil partners.

However, the home-related nil rate band can only apply where your home, or value derived from your home (if you have down-sized or moved to a care-home), is left to one or more of: your child, grandchild, great grandchild, step-child, foster child, or the spouse of one of those individuals.

Large estates won't benefit from the full value of the home-related nil rate band, as it is tapered away by £1 for every £2 of the estate value which exceeds £2 million. The rules are extremely complicated, so we should discuss how your Will should be drafted to ensure that the maximum relief from IHT is obtained.

If you have any questions about inheritance tax, give us a call

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VAT Spotlight.....

VAT payments and surcharges

If you don't pay all the VAT you owe on time, HMRC will eventually send you a surcharge calculated as a percentage of the unpaid VAT. This surcharge is not interest, and doesn't relate to length of the delay for the payment, just the amount of unpaid VAT.

The surcharge increases each time the VAT for a quarter is late: from nil to 2%, 5%,10% and finally, 15%. There is a £400 minimum floor for the surcharge for the first three late payments, so you may not receive a bill until the penalty has reached 10% or 15%.

This system encourages businesses to pay the VAT due for later periods, for which the surcharge will be higher, in favour of VAT debts due for earlier periods. However, the HMRC computer wants to allocate any VAT paid on account to earlier periods, leaving the later period exposed to a higher surcharge.

If you are trying to pay your VAT as you go along to avoid surcharges, always specify which periods the payment should be set against. If you may not be able to pay the next amount of VAT in full, you need to come to a time to pay agreement with HMRC (call 0300 200 3835). This will avoid a surcharge being imposed, and gives you certainty as to the payment arrangements.

We can help you arrange a time to pay agreement.

VAT and second-hand goods

If your business deals in second-hand goods, it can use a concession that significantly reduces your VAT payments compared to normal VAT accounting. Using this concession you account for the VAT on its profit margin on the second-hand goods, rather than on the full sales value.

The record-keeping requirements for using this concession are very strict, and you must distinguish between the goods which have had some prior use before you acquired them, and are thus treated as second-hand, and goods which are acquired new and unused. Young animals can't be regarded as second-hand goods, where they are bought directly from the breeder.

Where your business buys second-hand goods for £500 or less, VAT can be accounted for using the global accounting scheme. This allows VAT to be paid on total sales less total purchases of all goods in a VAT period, rather than on an item by item basis.

This method of accounting allows losses made on some items to be automatically offset against profits made on other sales. If the global accounting scheme is not used, no VAT is payable on items sold at a loss, but the loss cannot be offset against profits on other sales.

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