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Smith Craven
Chartered Accountants
Doncaster: 01302 329511 | Sheffield:0114 272 3838
Worksop: 01909 512160 | Chesterfield: 01246 232482
Email : mail@smithcraven.co.uk

Welcome...

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

If you need further assistance just let us know or you can send us a question for our Question and Answer Section.

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!**

October 2016

Finance Bill 2016 receives Royal Assent

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The Finance Bill 2016 finally received Royal Assent on 15 September, enacting proposals announced in the 2016 Budget, Autumn Statement 2015 and Summer Budget 2015. Amongst other things, Finance Act 2016 includes provisions relating to income tax rates and allowances; restrictions on tax reliefs for travel and subsistence expenses (in effect since April 2016), **the reduction of the lifetime allowance on pension contributions from £1.25m to £1m** (again, effective from 6 April 2016); and the reduction in the main rate of corporation tax to 17% for financial year 2020.

The Act is based on George Osbourne's final Budget. The annual Finance Bill usually receives Royal Assent in early to mid-July. This year's extensive delay has been largely blamed on the Brexit referendum followed by the summer parliamentary recess.

Finance Act 2016 can be found online http://www.legislation.gov.uk/ukpga/2016/24/contents/enacted/data.htm.

Termination payments consultation

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Following a recent consultation, the Office for Tax Simplification (OTS) is currently consulting on proposed changes to the tax and National Insurance Contributions (NICs) treatment of termination payments.

The current rules governing termination payments are complex and are sometimes **open to**

manipulation by employers to take advantage of the employer NIC exemption in particular. Employers sometimes attempt to change the nature of payments so that they effectively become exempt termination payments, where strictly, they should be charged to tax and NICs.

The proposed changes are therefore designed to provide certainty for employers and employees, whilst being fair, simple to implement, and not open to abuse or manipulation. At present, the government is proposing the following changes, which if enacted, will take effect from April 2018:

- the first £30,000 of a termination payment will remain exempt from income tax; and any payment paid to any employee that relates solely to the termination of the employment will continue to have an unlimited employee NICs exemption.
- the scope of the exemption for termination payments will be clarified to prevent manipulation by making the tax and NICs consequences of all post-employment payments consistent. In order to achieve this, tax and Class 1 NICs will be payable on any payment that the employee would have received it they had worked their notice period, even if the employee is asked to leave employment immediately or part way through their notice period. This will also remove the confusion about the different rules for payments in lieu of notice (PILONs) by making all PILONs taxable and subject to Class 1 NICs.
- the rules for income tax and employer NICs will be aligned so that employer NICs will be payable on payments above £30,000 (which are currently only subject to income tax).
- the following changes will also be made to the exemptions for termination payments: - removal of foreign service relief; and
- clarification that the exemption for injury does not apply in cases of injured feelings because of the divergence of judicial decisions about this issue.

The government's consultation response document and the draft legislation can be found online here.

HMRC launch online disclosure service for agents

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Where a client has failed to report all their income and gains, tax advisers and agents are now able to **make a disclosure to HMRC using a new online service**.

To use the online service, the agent will need to sign in to, or set up a Government Gateway account. It is possible to fill in the form on-screen, print and post it to HMRC.

Further details regarding the service can be found https://www.gov.uk/government/publications/hm-revenue-and-customs-disclosure-service.

Lifetime ISA guidance updated

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HM Treasury has updated its factsheet on the new Lifetime Individual Savings Account (ISA), which are expected to launch in April 2017. Key features of the new ISA include:

- Accounts may be opened by investors aged between 18 and 40.
- Savings invested in the account before age 50 will attract a government bonus of 25%.
- **A maximum of £4,000 may be saved each year on which the 25% bonus will be paid**. This equates to a maximum bonus of £1,000 a year.
- Some or all of the money can be used to buy a first home, or it can be saved until the investor is 60.
- The savings can be used for the purchase of a first home worth up to £450,000 across the country.
- Limits apply per person rather than per household.
- Investors who have a Help to Buy ISA can transfer those savings into the Lifetime ISA in 2017-18, or continue saving into both - but they will only be able to use the bonus from one to buy a house.
- After his or her 60th birthday, the investor can take out all the savings (including the bonus) tax-free.
- Money can be withdrawn at any other time, but the investor will have to pay a 25% charge. This effectively recovers the government bonus and applies a small charge.

October Question and Answer

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Q. I have recently started a new job and, for the first time in my career, I have been provided with a company car. I have to pay for fuel for private use but my employer says 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 2016-17 you would calculate this amount by multiplying the car's CO2 percentage by £22,200. So, if the percentage is 28, the tax charge for petrol is £6,216. For a basic rate taxpayer, the after-tax cash equivalent is £1,243 and for a higher rate taxpayer £2,486. 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 2016.

Rates currently range from 11p per mile for smaller petrol cars (under 1400cc); 13p for those with engines between 1401cc and 2000cc; and 20p per mile for larger petrol cars (over 2000cc). Lower rates apply for cars using cheaper liquid petroleum gas (LPG), ranging from 7p (1400cc or less); 9p (1401cc to 2000cc); and 13p (over 2000cc). Rates for cars with diesel engines currently range from 9p per mile for cars with engines of 1600cc or less; 11p per mile for those with engines of 1601cc to 2000cc; and 13p per mile for those with engines larger than 2000cc. Petrol hybrid cars are treated as petrol cars for this purpose.

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.

A full list of past and current mileage rates can be found on the HMRC website https://www.gov.uk/government/publications/advisory-fuel-rates.

Q. I am a director of a limited company, which is registered for VAT. I have recently formed a limited partnership, with my limited company being the only general partner and another business being a limited partner. HMRC have written to me advising that I am unable to register the limited partnership for VAT as my limited company is already VAT-registered. Is this correct?

A. Yes. In a limited partnership there must always be at least one general partner with unlimited liability. A limited partnership, composed of individual limited partners, and a corporate general partner, offers a combination of total limited liability and the advantages of the partnership structure.

If a limited partnership is registered with the Registrar of Companies, then HMRC will only allow the registration in respect of the general partners, not any of the limited ones. This is because a limited partner cannot be held liable for any debts or obligations of the limited partnership. If the limited partnership goes into debt, the limited partner is liable to lose only the contribution he made to the partnership, the remaining debt will fall to the general partners.

In your case, because the limited company is already VAT-registered and is the only general partner of the limited partnership, you would be treated as the same legal entity for VAT registration purposes and would not be able to obtain separate VAT registrations.

Q. Having been an employee of a company for many years, I was appointed to the board of directors from 1 March 2016. I understand that Class 1 National Insurance Contributions (NICs) are calculated differently for directors. Can you please explain how it works and let me know what will happen for the rest of the current tax year?

A. NICs for directors are calculated by reference to an annual, rather than weekly or monthly earnings period. You became a director in week 44 of the 2015/16 tax year, which means that the primary threshold and upper earnings limit are calculated for the rest of the tax year by multiplying the weekly values by 9 (the earnings period starts with the week of appointment). So, from your date of appointment in 2015/16 to the end of the 2015-16 tax year, you will pay Class 1 NICs at the main rate of 12% on your director's earnings between £1,008 (9 x £112) and £7,353 (9 x £817) and at the additional 2% rate on all earnings above £7,596 paid up to 5 April.

For 2016/17 you will pay Class 1 contributions evenly throughout the year. If, for example, your monthly salary is £9,000, you will pay Class 1 contributions as follows:

April (month 1) - salary £9,000 - NICs payable £112.80 (£9,000 - £8,060 (being the primary threshold) x 12%)

May (month 2) - salary £9,000 - NICs payable £1,080.00 (£9,000 x 12%)

June (month 3) - salary £9,000 - NICs payable £1,080

July (month 4) - salary £9,000 - NICs payable £1,080

August (month 5) - salary £9,000 - NICs payable £840.00 (£7,000 x 12% plus £2,000 x 2%: upper earnings limit of £43,000 reached)

September (month 6) to March (month 12) - NICs payable each month: £9,000 x 2% = £180.00

Total NICs due for tax year: £5,452.80

October Key Tax Dates

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1 - Due date for payment of Corporation Tax for the year ended 31 December 2015

5 - If a Tax Return has not been received, individuals and trustees must notify HMRC of new sources of income and chargeability in 2015/16

14 - Return and payment of CT61 tax due for quarter to 30 September 2016

19 - Tax and Class 1B national insurance due on PAYE settlements for 2015/16

19/22 - PAYE/NIC, student loan and CIS deductions due for month to 5/10/2016 or quarter 2 of 2016/17 for small employers

31 - Deadline for 2015/16 self assessment paper returns to be filed for HMRC to do the tax calculation. If a paper return is being filed also the deadline for tax underpaid to be collected by adjustment to your 2017/18 PAYE code (for underpayments of up to £3000 only)

Need Help?

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

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 and are interested in becoming one, we would love to come to meet with you to discuss how we can help and provide you with a competitive quote for our services.

All new client consultations are provided free of charge and without obligation.

About Us
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Smith Craven Accountants are based in Doncaster, Sheffield, Worksop and Chesterfield, offering local business owners and individuals a wide range of services.

Visit our website http://www.smithcraven.co.uk for more information.

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Sidings House, Sidings Court, Lakeside, Doncaster DN4 5NU