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Welcome...

To April'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!**

April 2016

OTS recommends simplifications for small companies

top

The Office of Tax Simplification (OTS) has unveiled a package of recommendations aimed at making the tax system simpler and easier to use for small companies. The report, entitled Small company taxation review contains a mix of long range structural change ideas and simpler short term administrative improvements.

The recommended administrative changes include:

- aligning filing and payment dates, e.g. VAT and PAYE, and annual returns and corporation tax;
- HMRC providing extra support at weekends and evenings when more small company owners deal with their tax affairs;
- stopping companies providing the same information to various government departments who instead should share the information; and
- looking at the feasibility of having advance clearances for VAT.

The report sets out three main areas for further work:

- testing whether taxing the profits from the smallest companies on the shareholders rather than the company ('look-through') could be simpler for some companies as well as addressing distortions in the system;
- developing an outline for an new 'sole enterprise protected asset' (SEPA) vehicle which will give some limited liability protection without the need to formally incorporate; and

- simplifying the corporation tax computation, eliminating many sundry tax allowances and potentially calculating corporation tax on a cash basis for the smallest companies.

Close alignment of income tax and NICS

top

The Office of Tax Simplification (OTS) has published its recommendations on closer alignment of income tax and national insurance contributions. The report contains some bold recommendations for what would be a major reform of the UK's tax rules.

At summer Budget 2015, the government asked the OTS to look at options for aligning Income Tax (IT) and National Insurance Contributions (NICs). This followed on from recommendations made by the OTS as far back at 2011, and the latest report builds on earlier work of the OTS including the reviews of small business taxation and employee expenses and benefits.

Key recommendations made in the report include:

- moving to an annual, cumulative and aggregated assessment period for employees' NICs similar to that for PAYE income tax;
- replacing employers' NICs with a flat rate charge on employer's total remuneration costs. The Employment Allowance would be retained to remove some small businesses from the charge;
- aligning NICs rates and thresholds between the employed and self-employed. This may mean the self-employed paying more NICs in return for better access to welfare benefits;
- aligning the rules for IT and NICs for employees; for example, a common definition of earnings; similar treatment of business expenses; and the extension of Class 1 NICs to benefits in kind;
- running IT and NICs as common, parallel systems. HMRC are encouraged to bring their IT and NICs teams closer together and to improve their guidance; and
- making NICs more transparent. Few of us understand how our NICs are calculated, what they fund and what we are entitled to. Once this is addressed (perhaps as part of HMRC's digital plans) a decision should be taken on the future of the contributory principle.

If enacted, these measures would significantly change the calculation and collection of NICs, bringing NICs more in line with IT and simplifying the UK's tax system as a result. But this would mean major upheaval and create winners and losers – the OTS estimates that moving to an annual, cumulative and aggregated assessment period for employees' NICs would mean 7.1 million workers paying less NICs (an average of £175pa) and 6.3 million workers paying more (an average of £275pa).

The OTS acknowledges that it will take time to achieve what would be a major reform of the UK's tax rules, and that a significant amount of additional work will be required to fully understand all of the implications of the proposed changes. The government will now consider the recommendations made by the OTS and we can expect a further update shortly.

National minimum wage increases announced

top

Following recommendations made by the Low Pay commission, the government has announced increases in the national minimum wage (NMW), which will take effect from October 2016.

The new rates will be as follows:

- The rate for 21- to 24-year-olds will rise by 3.7% to £6.95 an hour.
- The rate for 18- to 20-year-olds will rise by 4.7% to £5.55 an hour.
- The rate for 16- to 17-year-olds will rise by 3.4% to £4.00 an hour.
- The apprentice rate will rise by 3% to £3.40 an hour.

For further information, see the GOV.UK website here.

Guidance on SDLT Budget reforms top

Following announcements made in the 2016 Budget on 16 March, HMRC have published further guidance on the changes that are being made to stamp duty land tax (SDLT), and how they affect non-residential property transactions from 17 March 2016.

The changes mean that:

- on or after 17 March 2016, the SDLT rate for non-residential freehold and leasehold transactions will only be payable on the portion of the consideration which falls within each band (rather than tax being due at one rate on the entire value);
- SDLT on the rental element of non-residential leasehold transactions is already taxable on the portion of the consideration that falls within each band. From 17 March 2016 a new 2% rate applies for transactions with a net present value (NPV) above £5 million;
- from 17 March 2016, the '£1,000 rule' no longer applies.

In addition, HMRC have also published further guidance on the changes that are being made to stamp duty land tax (SDLT), announced in Autumn Statement on 25 November 2015, which apply from 1 April 2016 to purchases of additional residential properties, such as second homes and buy-to-let properties.

Broadly, higher rates will apply, which will be 3% above the standard rates of SDLT but will not apply to purchases of property under £40,000 or purchases of caravans, mobile homes and houseboats.

The guidance can be found here.

April Questions and Answers top

Q. Can I transfer my personal allowance?

I work part time and don't earn enough to pay tax, but my wife earns £25,000 a year from her full time job. I have been told that I can transfer some of my personal allowances to her so she can save some income tax. Is this true?

A. Claiming the marriage allowance can save married couples or civil partners up to £220 in 2016/17, but many couples have not claimed it yet.

The allowance was introduced from 6 April 2015, and enables married couples or civil partners to transfer £1,100 of personal allowance (2016/17 rate; £1060 for 2015/16) from one spouse or partner to the other, provided that the recipient does not pay tax at a rate higher than basic rate.

To process a claim, HMRC will need the national insurance numbers for each spouse/civil partner. In addition, if the claim is made online or by phone, HMRC will have to check the identity of the person making the claim and will ask for information from the claimant such as the last four digits from bank accounts that any state benefits (such as pension or child benefit) are paid into or from bank accounts that pay interest. Alternatively HMRC may ask for information from employment such as information contained on a P60 (the form given to all employees at the end of a tax year).

The claim should not be made if one spouse was born before 6 April 1935. Instead, the couple may be entitled to claim married couple's allowance which is more favourable.

Q. Do I have to repay claimed VAT?

In July 2014 I purchased a commercial unit for £50,000, and as the building was registered for VAT, I notified HMRC, applied for a transfer as a going concern, and did not pay any VAT. At

the time of purchase, the premises were let to a tenant but they moved out and the building was empty when the transaction was completed. In September 2014, I applied to de-register for VAT as I was receiving no income. I have since converted the unit into residential flats and I have applied to HMRC for a change of use. Do I need to pay back the VAT previously claimed?

A. This is a complex and questionable scenario. Since the business of renting out the property did not continue after you bought it, it will be difficult to argue that there was a transfer of a going concern (TOGC). However, you intended to continue to rent out the property and it was only because of circumstances beyond your control (i.e. the tenant moved out) that you didn't continue to rent it out. There is also a further point worth noting - VAT Public Notice 742: opting to tax land and buildings (at section 3.2) states there is an exemption from VAT where a previously commercial building is adapted to use as a dwelling (see VAT Notice 708 for an explanation of 'designed as a dwelling'). This exemption may be relevant to your scenario but I would recommend that you request a written ruling from HMRC.

Q. Do I have to pay CGT on the sale of a rented property?

I own a buy-to-let property, and over the last five years, its value has risen from £150,000 to £250,000. I understand that if I sell it now, I would have to pay capital gains tax (CGT) on a gain of £100,000. Can I sell this property and use all the money to buy another property rather than pay the tax now?

A. Unfortunately your plan to buy another house and thereby reduce the CGT payable on the first house is not allowed. 'Rollover' or 'holdover' relief from CGT is not available for investment properties, except for furnished holiday lettings, or compulsory purchase.

April Key Tax Dates

top

5 - End of 2015/16 tax year. Last day to use up your annual exemptions for capital gains tax, inheritance tax and ISA's

14 - Return and payment of CT61 tax due for quarter to 31 March 2016

19 - Deadline for finial submission of the year - 19th April. Penalties for late submission.

19 - PAYE/NIC, student loan and CIS deductions due for month to 5/4/2016 or quarter 4 of 2015/16 for small employers. Interest will run on any unpaid PAYE/NIC for the tax year 2015/16

30 - Additional daily penalties of £10 per day up to a maximum of £900 for failing to file self-assessment tax return due on 31 January 2016

Need Help?

top

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

top

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

top

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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