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Welcome...

To July'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!**

July 2018

MTD update

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HMRC's pilot of Making Tax Digital (MTD) for income tax has been extended and is now able to accept quarterly updates from individual landlords with simple tax affairs. Agents can also sign up clients to pilot.

The latest extension means that certain taxpayers will be able to opt out of the current self-assessment regime and use software to report their income tax if at least one of the following applies:

- the taxpayer is a sole trader with income from one business; or
- they rent out only UK property but not as furnished holiday lettings.

Those who do not qualify must continue to report their income to HMRC via a self-assessment return in the usual way.

Taxpayers who sign up to report digitally will send updated information directly to HMRC every three months during the course of the year and will be able to view up-to-date 'best estimates' of their tax liability as they go along. A final report will be submitted to confirm income and expenses at the end of the accounting year. If the taxpayer needs to claim allowances and reliefs, he or she can do this within that final report. The taxpayer will then be able to see a full tax calculation for the year.

In order to join the pilot, the taxpayer must be able to keep digital records of their business transactions, and commit to sending income tax updates to HMRC at least on a quarterly basis using MTD-compliant software.

MTD for VAT is currently expected to commence from 1 April 2019 for VAT registered organisations with an annual turnover in excess of £85,000 a year. No date has yet been set for when the MTD scheme may be formerly introduced on a mandatory basis for income tax purposes, but it will not be before 2020, and probably later than that due to HMRC's current focus on Brexit preparations.

EU mandatory tax disclosure rules take effect

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HMRC have released interim guidance for agents on the new EU Mandatory Disclosure Rules and new reporting requirements for intermediaries, which apply from June 2018.

Under the new mandatory EU tax disclosure rules, information will be exchanged between member states on a quarterly basis. Intermediaries will first have to report by 31 August 2020, on any arrangements where the first step has been taken, after the directive enters into force on 25 June 2018.

Broadly, the EU directive on administrative cooperation applies to intermediaries who design, market, organise, or makes available for implementation (or who manage the implementation of) a reportable cross-border arrangement. The directive also covers those who provide aid, assistance or advice where they can be reasonably expected to know that this is what they have done. If the intermediary is located outside the EU or is bound by professional privilege or secrecy rules, the obligation to report passes to the taxpayer.

Intermediaries are required to report any cross-border arrangement (covering all direct taxes) if it bears the 'hallmarks' defined in the directive. The hallmarks cover a broad range of structures and transactions, including certain deductible payments which are taxed at a rate of zero or nearly zero when received and intercompany transactions which meet specific transfer pricing hallmarks, such as any transfer of hard-to-value intangibles.

Intermediaries must report to the relevant tax authority within 30 days of when the arrangement is made available, is ready for implementation or has been implemented - whichever occurs first, or of when the aid, assistance or advice is provided.

Intermediaries are not expected to carry out additional due diligence and will only have to report information which is in their knowledge, possession or control.

Further details on how member states should interpret 'reasonably expected to know' can be found in the OECD's commentary on the mandatory disclosure rules. HMRC state that they will assess the consequences of this directive for the UK and will issue further guidance as appropriate.

For further information, see the OECD Model Mandatory Disclosure Rules for CRS Avoidance Arrangements and Opaque Offshore Structures.

CGT payment date under consultation

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The Association of Taxation Technicians (ATT) is warning that owners of second homes and buy-to-let (BTL) landlords may face a much shorter period in which to pay any capital gains tax (CGT) due on property sales from April 2020.

Where CGT is due, a disposal is normally reported to HMRC in a self-assessment tax return. Under self-assessment, any CGT must be paid by 31 January following the tax year of disposal.

The government has noted that (depending on the timing of the sale within a tax year) this **allows residential property owners between 10 and 22 months after the sale of the property before the tax is due.**

Concerned about the length of time before any CGT is paid, HMRC are planning to bring in new rules from April 2020 which will require individuals and trustees disposing of a residential property to make a payment on account of the CGT within 30 days of the completion of the sale. Sellers will have to calculate, report and pay the CGT that they believe is due within that window.

For a disposal made in the current 2018/19 tax year, an individual or trust self-assessment tax return is due by 31 January 2020. While the individual or trust may make payments on account for income tax due in 2018/19 during the year, any CGT for that period is not due until the 31 January 2020.

If an owner exchanged contacts for the sale of a house on 15 April 2019 and the sale completed on 15 May 2019, the existing rules would apply and mean that any CGT arising would be due on 31 January 2021. By contrast, under the proposed rules, an exchange of contracts on 15 April 2020 with completion on 15 May 2020 would mean that the CGT had to be paid by 14 June 2020 - over seven months earlier than if the property had been sold in the previous tax year and indeed before any CGT was due for the previous tax year.

CGT is generally charged at a rate of 18% or 28% on the taxable gain for residential property. The rate depends on the income tax rate of the tax payer. A higher rate taxpayer will pay 28% on the gain while a basic rate taxpayer will pay 18% on as much of the gain that fits within their unused basic rate band, and 28% thereafter. For Scottish taxpayers the higher rate position is determined by UK-wide income tax rates.

Commenting on the proposals, ATT's Technical Steering Group Co-Chair John Stride said that such 'in year' reporting may create complications as many individuals will not know what rate of tax will apply at the time of disposal. Equally, individuals may make other disposals in the year liable to CGT which might affect the position. After making an 'in year' report, individuals will therefore need to review and revise the computation at the end of the tax year, either as part of their usual self-assessment procedures or via new 'end of year' reconciliation process. This will increase the compliance burden for taxpayers.

A particular area of concern is the treatment of capital losses, says the ATT. Under the current proposals, the taxpayer will only be able to take into account of losses which are known about at the time of disposal. If they incur more capital losses later in the same tax year, then it is likely that the original payment on account of CGT will be found to be too large. However, they will not be able to reclaim any overpayment until after the tax year has finished. This could leave the taxpayer out of pocket for some months, warns the ATT. The only time that capital losses realised after the disposal of the property can be taken into account is if the taxpayer disposes of further residential property in the same tax year.

When similar 'in-year' reporting rules were introduced for non-residents disposing of UK residential property, many individuals only realised they should have reported their disposals earlier when they came to complete their self-assessment return after the end of the tax year. In ATT's response to a HMRC consultation on how to administer the change5 it has expressed concerns that UK individuals may also miss the earlier deadline and have asked HMRC to consider a 'soft-landing' for penalties in the early years of these new rules.

The association's response to a HMRC consultation on how to administer the CGT changes highlights concerns that UK individuals may also miss the earlier deadline and have asked HMRC to consider a 'soft-landing' for penalties in the early years of these new rules.

Stride said: 'If the government wants to accelerate tax payments in order to minimise possible loss to the Exchequer, we would like to see a wider debate on the timing of payment of tax rather than payments on account being introduced in a piecemeal fashion over a number of different assets or income sources. A broader debate would enable HMRC to identify clearly the specific areas of concern and the risks to tax collection and thereby enable identification of possible solutions.'

It's worth noting that the new rules should not impact on people selling their only or main home, provided that they are entitled to full private residence relief which exempts them from having to pay CGT on the sale.

HMRC continue to face issues with TRS top

HMRC's new Trusts Register is designed to provide a single point of access for trustees and their agents to register and update their records online, replacing the paper 41G(Trust) form (which was withdrawn from April 2017) and the ad hoc process for trustees to notify changes in their circumstances. Initially, new trusts had until 5 October 2017 to register, but this deadline was subsequently extended to 5 January 2018. The registration deadline for existing trusts was also extended to 5 March 2018. Registration must be done online using HMRC's Trust Registration Service (TRS).

The TRS aims to provide a **single online route for trusts and estates to comply with their registration obligations**. However, delays and technical issues with the system continue to be experienced by many users.

Unfortunately it is not yet possible to update the Trust Register, as HMRC have not added that functionality to the website -changes to the lead trustee have to be notified by post (see below).

HMRC have advised that when completing a trust tax return, box 20.1 should be left blank, as it is currently not possible for lead trustees, or their agents, to update the registered information using the online Trust Registration Service (TRS), or to declare that there have not been any changes to the registered information.

Question 20 on page 11 of the trust return (SA900) asks for confirmation that the Trust Register is accurate and up-to-date. HMRC are currently consulting on this and have advised to leave this box blank until the service is available. Importantly, they have confirmed that they will not seek to impose a penalty charge for not answering the question in the return.

Any changes to the lead trustee's name or address continue to be notifiable in writing. Such changes must be notified by 31 January of the tax year after either:

- the trust has been set up; or
- it starts to make income or chargeable gains, if this is later.

Details of the changes should be sent to HMRC, Trust, BX9 1EL.

For further information, see www.gov.uk/guidance/register-your-clients-trust.

July questions and answers top

Q. I am a company director and usually work from an office in London. However, I will shortly be relocating to France for a couple of months and will be working from there. Will I be able to claim travel expenses whilst I'm abroad?

A. Whether or not you will be able to claim tax relief on travel expenses depends on the reason that you are relocating abroad. If the move is for personal reasons, you will not be able to claim tax relief for expenses. However, if the duties of your employment require you to relocate abroad, you should be able to claim for certain expenditure incurred. See the HMRC Employment Income Manual (EIM34000) for further details.

Q. I am a sole trader providing IT consultancy services to customers. I am registered for VAT. Can I use the cash accounting system for paying VAT and do I need to apply to HMRC to use it?

A. Usually, the amount of VAT actually paid over to HMRC is the difference between the business's sales invoices and its purchase invoices. These figures are reported to HMRC and the net amount paid, even if the invoices haven't been paid. This anomaly means that smaller firms often find they struggle with cash flow, since they are required to pay out money that they have yet to receive.

Under the VAT cash accounting scheme businesses:

- pay VAT on their sales when their customers pay them;
- reclaim VAT on their purchases when they have paid their supplier.

The business issues tax invoices as normal, but only accounts for VAT when, and to the extent, that payment is received. This means the business gets a cash flow advantage, which may be significant, depending on how long customers take to pay their bills. It also has the added bonus of built in bad debt relief!

This advantage is, however, offset by the fact that the business cannot recover input tax until it pays its bills, so the scheme will be most beneficial to a business selling services rather than goods, and which, therefore has relatively low taxable inputs.

Broadly, a business can use cash accounting if:

- it is registered for VAT; and
- its estimated VAT taxable turnover is £1.35 million or less in the next 12 months.

A business which satisfies these conditions can use the scheme without prior approval from HMRC.

See HMRC's Notice 731 for further details.

Q. What are the conditions for claiming Marriage Allowance and what is the maximum that can be claimed in 2018/19?

A. Broadly, although not strictly a separate allowance, MA is a way for couples to transfer a proportion of their individual Personal Allowance between them in a tax-efficient manner. For 2018/19, the maximum amount that can be transferred from one partner to the other is £1,190, which means that the spouse or civil partner receiving the transferred allowance will be entitled to a reduced income tax liability of up to £238 for 2018/19 (£1,190 @ 20%).

Where a couple satisfies the following criteria, it should be possible to claim the allowance:

- The couple must be either married or in a civil partnership - living together is not sufficient for the allowance to be claimed.
- One partner needs to be a non-taxpayer - which generally means they are earning less than the personal income tax allowance (£11,850 for 2018/19).
- The other partner needs to be a basic 20% rate taxpayer, which generally means they are earning less than £46,350 in 2018/19 (note that rates are different for Scottish taxpayers). Higher rate and additional rate taxpayers are not entitled to the allowance.
- Both partners must have been born on or after 6 April 1935.

July key tax dates

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5 - Deadline for PAYE settlement agreement for 2017/18

6 - Deadline for 2017/18 forms P11D and P11D(b) to be submitted and copies of P11D to be issued to relevant employees
Deadline for employers to report share incentives for 2017/18

14 - Return and Payment of CT61 tax due for quarter to 30 June 2018

19/22 - PAYE/NIC, student loan and CIS deductions due for month to 5/7/2018 or quarter 1 of 2018/19 for small employers

Class 1A NIC due in respect of the tax year 2017/18

31 - Second self assessment payment on account due for 2017/18 Second 5% penalty surcharge on any 2016/17 outstanding tax due on 31 January 2018 still unpaid
Penalty of 5% of tax due or £300, whichever is greater for 2016/17 personal tax returns still not filed
Deadline for Tax Credits to finalise claims for 2017/18 and renew claims for 2018/19
Half yearly Class 2 NIC payment due

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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