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Welcome...

To November'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 on your own specific circumstances. **We're here to help!**

November 2017

HMRC launch new business support service

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HMRC have launched a new service designed to directly help mid-sized businesses as they expand and grow.

The new Growth Support Service (GSS) will be open to some 170,000 mid-sized businesses registered in the UK who are undergoing significant growth, and who either have a turnover of more than £10 million, or more than 20 employees.

Broadly, a business will be eligible under the 'significant growth' criteria if its turnover increased by 20% or more in the last twelve months, where this increase is at least £1 million.

HMRC's **GSS tax experts will offer dedicated support, tailored to the customer's needs.** It has been created to help growing, mid-sized businesses access specific information and services, including:

- helping with tax queries about the growing business;
- supplying accurate information and co-ordinating technical expertise from across HMRC;
- supporting businesses to get their tax right first time and access relevant incentives or reliefs.

Businesses who meet the eligibility requirements can apply online; they will then be contacted by their dedicated growth support specialist at HMRC, to discuss their requirements. The bespoke service will generally last between three to six months.

According to HMRC, the top five industries and sectors that could benefit from the Growth Support

Service are:

- Manufacturing (for example building, printing or maintenance firms);
- Information and communication (for example IT or software companies, film makers or publishers);
- Administrative and support services (for example vehicle hire companies, recruitment agencies or call centres);
- Professional, scientific and technical services (for example law and accountancy firms or quantity surveyors); and
- Wholesale and retail (for example high street shops, food and drink outlets or car showrooms).

It is worth noting that the HMRC growth support specialists will only deal with tax-related matters. They will not, however, be able to give general business advice, tax planning or tax avoidance advice, or guidance on how businesses should grow.

OTS outlines future work plans

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The Office of Tax Simplification (OTS) has published a paper outlining its future works programme, identifying areas of interest that the office will be looking at in the next twelve months and beyond.

The OTS is currently working on a review of VAT, and expects to publish its report in October or November 2017. Work has also commenced on a high-level paper on the business lifecycle which looks at key events and the various taxes which apply at these points.

The Government has requested a review of capital allowances and the possibility of using instead the depreciation charged in the financial statements. Work has commenced on this and the OTS aims to publish its report early next year.

During the next twelve months, the OTS will begin work on several further projects although not all of these will necessarily be taken forward, or their scope may be modified on further review. The projects include:

- a wide review of technology asking how recent advances in technology may provide novel opportunities for the simplification of the design or administration of the tax system;
- further examination of particular areas of the business lifecycle work, such as reliefs for investment;
- exploring the potential for a review of aspects of the taxation of savings and investments; and
- exploring the potential for a review of aspects of inheritance tax.

In the medium term, the OTS will continue to engage with stakeholders on Making Tax Digital and there is likely to be ongoing work on employment status and the 'Gig economy'.

The OTS is also proposing to undertake a review of the structure of the tax system in other countries, particularly the US, Ireland and the Netherlands to explore whether there are structural features of other countries tax system which would provide simplification opportunities for the UK.

All change for termination payments

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As confirmed in the 2017 Spring Budget, the tax rules governing termination payments will change from 6 April 2018.

The term 'termination payment' is typically used as a generic summary for a lump sum payment, which is normally (but not always) made to an employee at the time the employment comes to an end. The current **rules governing the taxation of termination payments are complex** and over recent years, have been subject to manipulation by some employers seeking to minimise income tax and NIC liabilities. The forthcoming changes seek to clarify the rules, particularly in relation to the existing £30,000 tax-free exemption for genuine redundancy payments.

PILONs

Under the existing rules, it is necessary to look at whether payment in lieu of notice (PILON) is the contractual right of the employee. Broadly, if a contractual right exists, it will be fully taxable as earnings. This 'contractual right' element has provided a degree of scope for manipulating arrangements to take payments outside the taxable earnings boundaries - and in doing so, for potentially escaping the charges to tax and NICs.

From 6 April 2018, all PILONs, rather than just contractual PILONs, will be treated as taxable earnings. Therefore, under the new rules, all employees will pay tax and Class 1 NICs on the amount of basic pay that they would have received if they had worked their notice in full, even if they are not paid a contractual PILON. This means the tax and NICs consequences are the same for everyone and it is no longer dependent on how the employment contract is drafted or whether payments are structured in some other form, such as damages.

Aligning income tax and NICs

The existing £30,000 income tax exemption for genuine terminations payment will remain. However, the National Insurance Contributions rules will be aligned with the tax rules so that, from 6 April 2018, employer NI contributions will be payable on the elements of the termination payment exceeding £30,000. The employer NIC charge will be achieved through Class 1A contributions.

Going forward

As with most anti-avoidance measures, it is likely that HMRC will monitor how these changes are operated and, if perceived misuse of the rules is detected, further changes can be expected.

Although the existing £30,000 exemption will remain intact, the circumstances in which the exemption can be applied will, in essence, be restricted to genuine redundancy situations. This will remain a contentious area on which specialist advice will still be recommended.

Using the IHT gift exemptions

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As Benjamin Franklin observed in 1789 'In this world nothing can be said to be certain, except death and taxes.' More than two centuries on, this statement still rings true! These days however, inheritance tax is often referred to as a voluntary tax, because there are various ways to minimise liability to it, or even avoid it all together.

PETS

Any assets (cash or otherwise) that a person gives away during their lifetime, that do not fall under the exempt transfer rules, such as transfers between spouses and civil partners and gifts to charities, may escape inheritance tax as a potentially exempt transfer (PET).

There is no limit on the amount of PETs that can be made during a lifetime.

Broadly, for a PET to escape inheritance tax completely the donor needs to survive for seven years after making the gift. If he or she dies within the seven-year period, the PET is partially chargeable depending on the number of years that have elapsed since they made the gift.

The reduction is given in the form of taper relief, a sliding scale used to determine tax liabilities on gifts between three and seven years before death.

Current rates of taper relief and the resulting IHT rate are as follows:

Period before death in which gift made:

- 0 to 3 years - reduction 0%; tax rate is 40%
- 3 to 4 years - reduction 20%; tax rate 32%

- 4 to 5 years - reduction 40%; tax rate 24%
- 5 to 6 years - reduction 60%; tax rate 16%
- 6 to 7 years - reduction 80%; tax rate 8%
- More than 7 years - reduction 100%; tax rate 0%

If the donor dies within seven years of making a PET the value of that PET will be added in to the value of his or her estate to determine how much, if any, inheritance tax is due.

The PET will therefore use up some or all of the available nil-rate band, potentially increasing or even creating an inheritance tax liability for the estate. In addition, if the value of the PET exceeds the level of the nil-rate band in force for the year in which the donor dies, then additional inheritance tax will be payable by the recipient of the gift.

Taper relief may reduce the amount of tax payable. However, taper relief can only reduce an inheritance tax liability resulting from a PET becoming chargeable on death. The relief does not reduce the value of the gift itself.

Taper relief is particularly beneficial for those with large estates. Giving away £1 million and living for seven years takes the money right out of the inheritance tax net. But even if the donor lives for only six years, the £1 million less the nil-rate band is charged at just 8% under taper relief, instead of the full 40% inheritance tax rate.

Lifetime exemptions

The annual exemption enables a person to give away up to £3,000 per annum free of IHT. In addition, any unused exemptions from the previous year, may be carried forward, although any unused exemptions earlier than a year will be lost. This means that if no gifts have been made in the previous tax year, a person could make an IHT-free gift in the current tax year of £6,000. If the amount exceeded the annual exemption available, it could still remain exempt from IHT, if the person making the gift survives seven years.

In addition to the annual exemption, small gifts of up to £250 per year may be made free from IHT. The gift must be an outright gift to any one person each tax year.

Gifts on marriage can also be free of IHT provided that the gift does not exceed set limits. The limits depend on the relationship to the married couple/ civil partners and are as follows:

- Parents - £5,000
- Grandparents, great-grandparents - £2,500
- Bride to groom/ groom to bride/ bride to bride/ groom to groom - £2,500
- Anyone else - £1,000

These exemptions may be combined in certain circumstances to reduce a potentially exempt transfer (PET).

November questions and answers

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Q. My wife and I are directors of a small company. Our two children also work for the company. Is there any advantage to the company paying for all our mobile phones?

A. The tax legislation provides exemptions from tax, and often National Insurance Contributions, for certain benefits-in-kind - mobile phones being one of them. Making use of the exemptions generally offers an opportunity to extract funds from a family company without triggering a tax or NIC charge. Providing the benefit rather than the funds with which to buy the benefit saves tax. The costs are also deductible in computing the company's profits.

So, if the company takes out a contract for four mobile phones, provides each family member with a phone, and pays the bills, the costs paid by the company will be deductible in computing taxable profits. The family members get the use of a phone tax free, meaning that they do not need to fund one from their post-tax income.

Q. I am an employee and pay basic rate tax under PAYE each month. My wife works part-time and earns £10,000 per annum and does not pay any tax. Can I benefit from her unused personal tax allowance?

A. Since April 2015, it has been possible for a spouse or civil partner who is not liable to income tax or not liable above the basic rate for a tax year to transfer part of their personal allowance to their spouse or civil partner, provided that the recipient of the transfer is not liable to income tax above the basic rate. The transferor's personal allowance will be reduced by the same amount. For 2017/18 the amount that can be transferred is £1,150. The person receiving the allowance will be entitled to a reduced income tax liability of up to £230 for 2017/18. Note that married couples or civil partnerships entitled to claim the married couple's allowance are not, however, entitled to make a transfer.

Eligible couples can backdate their claim for the allowance for up to four years. This means that couples will have until 5 April 2020 to backdate their claim to the 2015/16 tax year when the allowance was first introduced.

Q. My business manufactures and supplies seasonal novelties and is registered for VAT in the UK using the cash accounting scheme. We have recently won a large order for goods from another UK company, but they have requested to be paid in Euros. I understand that I need to show the VAT amount on the invoice in sterling, using one of the agreed methods of conversion published in HMRC VAT Notice 700 section 7.6. When the invoice is paid, as the exchange rate may have changed and be different to the one on the invoice, do I need to recalculate the VAT?

A. VAT Notice 731 section 5.10 states that if you issue a VAT invoice in a foreign currency, including Euros, and then are paid in full you must always declare the sterling amount of the VAT due on the supply as shown on your VAT invoice. You do not need to recalculate the exchange rate when the cash is received.

November key tax dates

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2 - Last day for car change notifications in the quarter to 5 October - Use P46 Car

19/22 - PAYE/NIC, student loan and CIS deductions due for month to 5/11/2017

22 - Chancellor Philip Hammond will deliver the Government's Autumn 2017 Budget.

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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