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Welcome...

To January'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!**

January 2018

New Budget timetable and Spring Statement date confirmed top

HM Treasury has confirmed that the Spring Statement will take place on Tuesday 13 March 2018.

At Autumn Statement 2016, the Chancellor announced that in future there will be a single fiscal event each year - the annual Budget statement, which will be delivered in the autumn. Autumn Budget 2017 was the first Budget in this new cycle. From Spring 2018, an annual Spring Statement will accompany an updated economic and fiscal forecast from the Office for Budget Responsibility. The Chancellor has said that **he will not make significant tax or spending announcements at the Spring Statement**, unless the economic circumstances require it.

HM Treasury has also published a policy document setting out a summary of the timetable and process the Government will use for tax policy making and consultation following the move to a single annual fiscal event.

Fulfilment House Due Diligence Scheme top

The new Fulfilment House Due Diligence Scheme will open for online applications on 1 April 2018. From that date, businesses in the UK that store any goods imported from outside the European Union (EU) owned by, or on behalf of, someone established outside the EU, will need to apply for HMRC approval if those goods are offered for sale. The deadline for applications from existing businesses falling within the scope of the scheme is 30 June 2018, and there are penalties for late applications. For businesses that commence trading on or after 1 April 2018, the application deadline date is 30 September 2018.

Businesses that only store or fulfil goods that they own, or only store or fulfil goods that are not imported from outside the EU, are not required to register.

Registered businesses must carry out certain checks and keep certain records from 1 April 2019. Businesses covered by the scheme will not be allowed to trade as a Fulfilment Business from this date if they do not have approval from HMRC. Those that do, **risk a £10,000 penalty and a criminal conviction.**

From 1 April 2019, registered businesses will be required to keep a record of:

- overseas customers' names and contact details;
- overseas customers' VAT registration numbers;
- the type and quantities of goods stored in the warehouse;
- import entry numbers;
- the delivery addresses; and
- notices that the business will need to give its overseas customers, which explain their tax and duty obligations in the UK.

Records must be kept for six years - a penalty of £500 may be imposed for failure to comply with this requirement.

Early preparation in this area is recommended to ensure that the application for approval is made on time, and that systems are in place to gather and maintain the necessary records.

Further information can be found on the GOV.UK webpage: Fulfilment House Due Diligence Scheme.

Consider a partnership

top

Whilst forming a partnership can be an extremely flexible way for two or more people to own and run a business together, it is important to appreciate that under this type of trading vehicle, the **partners themselves do not have individual protection**. If one of the partners resigns, dies, or goes bankrupt, the partnership has to be dissolved, even though the business itself may not need to cease. Although there is no legal requirement to do so, it is highly recommended that, on forming a partnership, a formal partnership deed is drawn up. Many partnerships ask a solicitor to help with this, but it is possible for the partners to drawn one up themselves.

Broadly, the partnership agreement sets out what each partner is responsible for and what he or she can expect from the business. Each partner of the firm will be self-employed, taking a share of the profit and paying income tax and NICs personally on that share. However, each partner will also be personally responsible for any (and potentially all) debts that the partnership incurs.

It may be worthwhile considering forming a partnership with a sleeping partner, who usually receives a smaller annual share of the partnership's profits. In simple terms, a sleeping partner normally contributes money to the business but doesn't get actively involved with running it.

HMRC obligations

The partnership needs to appoint one of its officers (the nominated officer) to fill in the partnership tax return each year and send it to HMRC. This return includes a Partnership Statement, which shows how profits or losses have been divided amongst the partners. The nominated partner also has to give each partner a copy of the Partnership Statement to help them complete their own personal tax return correctly.

Partners are individually responsible for submitting their own self-assessment tax returns. However, the partnership must register with HMRC by 5 October in the business's second tax year, or a penalty may be incurred.

With regard to VAT, where a sole trader takes in one or more partners there is a change in business entity for VAT purposes. If the sole trader is VAT registered, the change must be notified to HMRC within 30 days and his/her VAT registration will be cancelled. Alternatively, an application may be made (on form VAT 68) for the VAT registration to be transferred to the partnership. The partnership itself must register if the VAT taxable turnover is more than the VAT registration threshold (currently £85,000).

Limited liability partnerships

In some circumstances it may be worth considering the formation of a limited liability partnership (LLP). This type of trading vehicle is similar to an ordinary partnership in that a number of people or limited companies join together and share the costs, risks, and responsibilities of the business. They also take a share of the profits, and pay income tax and NICs on their share of the partnership profits. However, under an LLP, debt will be limited to the amount of money each partner invested in the business and to any personal guarantees given to raise business finance. This, in turn, affords members some protection if the business runs into difficulties because their liability will be restricted in general terms to the level of their investment.

New tax bands announced in Scottish Budget

top

In the Scottish Budget, which took place on 14 December 2017, Scotland's Financial Secretary, Derek Mackay, announced that two thirds of income taxpayers will pay less next year on their current income. However, new bands of income tax were also announced, which will see taxes rise for Scottish taxpayers in the middle income bracket.

The Draft Budget 2018/19 proposes a **progressive income tax policy which protects low earning taxpayers** through the introduction of a new Starter Rate of tax.

It was also confirmed that a new intermediate rate of tax of 21% will be introduced, and the higher and top rates of tax will rise to 41% and 46% respectively.

As a result of these changes, and the increase in the personal allowance, all taxpayers earning up to £33,000 will be protected from any increase in tax rates. Those earning more than £33,000 will pay only a proportionate amount more.

A majority of taxpayers (55%) in Scotland will pay marginally less in 2018/19 than they would in the rest of the UK.

It is hoped that these measures will raise an additional £164 million of revenues to support Scotland's investment plans in relation to healthcare without having to reduce spending on police and fire services, social care or education.

Delivering his Budget speech, Mr Mackay said "Our new, fairer, income tax policy will protect the 70% of taxpayers who earn less than £33,000 a year and ensure they pay less tax next year for any given income whilst asking those earning more than £33,000 to pay a proportionate amount more to support our public services."

"Our plans also ensure that over half of taxpayers will pay slightly less in Scotland next year than they would in the rest of the UK, protecting low incomes and supporting the economy."

Income tax proposals for 2018/19 for Scottish taxpayers can be summarised as follows:

- introduction of a new starter rate of 19% for those earning between £11,850 and £13,850;
- a basic rate of income tax at 20% for those earning over £13,850;
- a new intermediate rate of 21% for those earning over £24,000;
- a higher rate of 41% on incomes over £44,273 to £150,000; and
- a top rate of 46% on incomes over £150,000.

In addition, the Draft Budget confirmed that for Residential Land and Building Transaction Tax (LBTT), the Scottish Government will set a new zero rate threshold for first time buyers of £175,000 - taking 80% of first time buyers out of tax altogether. The residential and non-residential rates and bands for LBTT will remain unchanged.

January questions and answers

top

Q. I have recently bought a residential property to rent out. To enable me to purchase this property I took out a mortgage on my own home, but I did use all the money to buy the rental property. Can I claim tax relief for mortgage interest against my rental income?

A. You should be aware that the rules for residential landlords claiming tax relief on interest paid changed from April 2017. The answer to your question is, yes, you can offset the interest you are paying on this mortgage against the rental income you are receiving from the purchased property. The HMRC Business Income Manual (at BIM45685) confirms that 'the security for borrowed funds does not determine the use of those funds'.

Q. I am an IT consultant and I provide my services via my limited company, which operates outside the IR35 rules. I started working on my current contract just over two years ago - although when I started, I did not know that it would last this long. Do the temporary work place rules on allowable expenses apply in this situation?

A. There are a number of circumstances where, even though an employee attends a workplace to perform a task of limited duration or for some other temporary purpose, it will still be treated as a permanent workplace. This will be the case where the 24-month or fixed term appointment rules apply or where the workplace is a depot or base.

The 24-month rule prevents a workplace being a temporary workplace where an employee attends it in the course of a period of continuous work which lasts, or is likely to last, more than 24 months.

HMRC's guidance on employee travel (Booklet 490) states (at section 3.21):

'Where it is expected that the employee will attend a workplace to perform a task of limited duration or for some other temporary purpose for a period of less than 24 months, the workplace will be a temporary workplace from the outset.

However, if at a later date circumstances change and the employee is required to attend the workplace for a period that extends beyond 24 months, it will cease being a temporary workplace from the date that the expectation changed.'

Q. How is an estate valued for inheritance tax purposes?

A. Inheritance tax on death will be calculated on the net value of the estate. The net value of an estate is effectively assets less liabilities.

Examples of assets include, land and property, shares and securities, savings, jewellery, paintings and antiques. Assets within an estate on death will also include any assets gifted within 7 years of death.

Liabilities include, credit card debts, loans, overpayments of pensions, outstanding utility bills. The estate will also be reduced by reasonable funeral costs and any income tax or capital gains tax.

An estate will take into account all assets and liabilities of a person. In order for the debt or liability to be an allowable deduction from the estate, it must be owed by the deceased at the date of death. There must be a genuine commercial reason for the liability and if included within the estate, it must actually be a liability that is repaid from the estate.

Liabilities will be paid either out of the estates available cash or can be via the sale of an asset or by the personal representatives taking out a loan.

January key tax dates
top

1 - Due date for payment of Corporation Tax for the year ended 31 March 2017

14 - Return and payment of CT61 tax due for quarter to 31 December 2017

19/22 - PAYE/NIC, student loan and CIS deductions due for month to 5/1/2018 or quarter 3 of 2017/18 for small employers

31 - Deadline for filing 2017 Self Assessment personal, partnership and trust Tax Returns - £100 first penalty for late filing even if no tax is due or tax due is paid on time

- Balancing self assessment payment due for 2016/17
- Capital gains tax payment due for 2016/17
- First self assessment payment on account due for 2017/18
- Interest accrues on all late payments
- Half yearly Class 2 NIC payment due
- Further penalty of 5% of tax due or £300, whichever is greater for personal tax returns still not filed for 2015/16
- 5% penalty for late payment of tax unpaid for 2015/16 self assessment

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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