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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 August'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!**

August 2017

Mileage rates for electric and hybrid cars

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Some confusion has been reported over how businesses should calculate mileage expenses rates for electric and hybrid company cars. This confusion has arisen largely because HMRC's advisory fuel rates, or approved mileage allowance payments, only cover petrol and diesel cars. There are no separate 'approved' rates for electric or hybrid vehicles.

Currently, whilst **HMRC do recognise that employees should be reimbursed for costs incurred for business travel**, they do not currently recognise electric charging costs as a 'fuel' expense and do not therefore, currently publish separate rates.

HMRC's advisory fuel rates can be used to work out mileage costs in certain situations, for example, where an employer reimburses an employee for fuel they have used on business travel in a company car, or where an employee is required to repay the cost of fuel used for private travel. Where the employer uses the advisory fuel rates (or lower rates) then no liability to tax or NICs will arise on the payments and they do not need to be report to HMRC.

The treatment of mileage rates is relatively straight-forward for hybrid cars - they are treated as either petrol or diesel for the purpose of the advisory fuel rates, so employers can just use the appropriate current rates.

The situation is more difficult for employers with employees who drive electrics car as company vehicles. Such employers could use the advisory fuel rate based on the lower of the petrol or diesel tariff, or the calculated cost of the electricity used from a domestic supply to charge the car. Another option would be to pay a rate that can be calculated accurately as a true cost to the employee. Whichever method is used to reimburse mileage, it is imperative that the employer maintains adequate records to substantiate that the correct amount has been paid. Failure to keep adequate records may lead to additional tax and NIC liabilities, and penalties.

Switching to the cash basis

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Many small, unincorporated businesses choose to use the 'cash basis' for working out taxable income. Under this method, participants will be taxed on the basis of the cash that passes through their books, rather than having to undertake complex and time-consuming calculations designed for larger businesses, who generally have to use 'traditional' methods for tax purposes. Whilst easing the administrative burdens of preparing 'traditional' accounts, **using the cash basis can also help with cash flow.**

For the 2017/18 tax year onwards, the eligibility income threshold for using the cash basis has been significantly raised - it is now £150,000 (previously £83,000), meaning that many more small businesses can now use the scheme. The exit threshold, above which businesses must cease to use the cash basis, has also been raised from 6 April 2017 to £300,000. This means that many businesses will be able to continue using the scheme as they continue to grow.

Where it has been identified that an existing business would benefit from switching to the cash basis, and it has been established that the eligibility criteria to do so has been satisfied, various one-off adjustments may be required to work out the business's profit for the period of the switch. The following list summaries areas where adjustments may be required, and if applicable, what action should be taken:

- **The business was owed money at the last year-end accounting date; and tax was paid tax on that amount in that tax year; and the monies owed were received in the current accounting period.**
Action: Deduct the amounts owed to the business from the total cash basis turnover for the current accounting period.
- **The business owed money to its suppliers at last year-end accounting date, and tax relief was claimed on that amount in that tax year, but the suppliers were not paid until the current accounting period.**
Action: Deduct the amounts owed to suppliers from total cash basis expenses for the current accounting period.
- **The business was carrying stock items at the end of the last accounting period but relief was not claimed for this cost.**
Action: Add the cost of the stock to cash basis expenses for this accounting period.
- **The business received money from customers in the last accounting period (for example, payments made in advance of work done) that it did not pay tax on.**
Action: Add the amounts that customers paid to total cash basis turnover for this accounting period.
- **The business paid in advance for certain items in the last accounting period (for example, a subscription, or a deposit) that it did not claim tax relief for.**
Action: Add the amounts paid to suppliers to total cash basis expenses for this accounting period.
- **If, at the end of the last accounting period, the business had paid in full for items of equipment (but not cars), and it had a balance of capital allowances still to claim on that equipment.**
Action: Add the balance of capital allowances still to claim to total cash basis expenses for this accounting period.
- **If, at the end of the last accounting periods, the business had partly paid for items of equipment (for example, by instalments), but had claimed a different amount.**
Action: If the amount partly paid was more than the capital allowances claimed, HMRC treat the difference as an expense (increasing total cash basis expenses) as a transitional adjustment for this accounting period. If the amount partly paid was less than the capital allowances claimed, HMRC treat the difference as turnover (increasing total cash basis turnover) as a transitional adjustment for this accounting period.

If the business is a new business in its first period of account, no adjustments will be necessary.

Further guidance on calculating taxable profits can be found in HMRC's help sheet HS222: How to calculate your taxable profits.

SDLT on second homes

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Stamp Duty Land Tax (SDLT) is payable on the purchase of residential property in increasing portions of the property price above £125,000.

Current rates of SDLT on individual and additional properties are as follows:

- Purchase price up to £125,000 - SDLT rate Zero; additional property rate 3%
- The next £125,000 (portion from £125,001 to £250,000) - SDLT rate 2%; additional property rate 5%
- The next £675,000 (portion from £250,000 to £925,000) - SDLT rate 5%; additional property rate 8%
- The next £575,000 (portion from £925,000 to £1.5m) - SDLT rate 10%; additional property rate 13%
- The remaining amount (portion above £1.5m) - SDLT rate 12%; additional property rate 15%

Note that **SDLT no longer applies in Scotland, where a Land and Buildings Transaction Tax (LBTT) is charged instead.**

Additional property

A higher rate of SDLT will be charged on purchases of additional residential property which completed on or after 1 April 2016.

If contracts were exchanged after 25 November 2015, then the higher rates apply if the purchase was completed on or after 1 April 2016. However, if contracts were exchanged on or before 25 November 2015 but not completed until on or after 1 April 2016, the higher rates will not apply.

The amount of the additional charge will be 3% on top of the normal SDLT charge.

Example

Leo buys a second residential property on 25 July 2017 costing £300,000. This transaction will attract SDLT as follows:

£125,000 x 3% = £3,750

£125,000 x 5% = £6,250

£50,000 x 8% = £4,000

Total SDLT due £14,000

Broadly, the higher rates will not apply if at the end of the day of the transaction an individual owns only one residential property, irrespective of the intended use of the property.

If a main home is sold after a new home is purchased, the higher rate will be payable. However, a refund can be obtained is the old home is sold within three years of buying the new one.

Exceptions

The higher rates are not payable on the purchase of a new property if the chargeable consideration is less than £40,000.

In addition, the charge is not payable where:

- someone else holds a lease on the property with more than 21 years to run;
- a lease is purchased that has less than 7 years to run.

The higher rates will not be applicable if an individual's other residential properties meet either of the two criteria above, or each have a value of less than £40,000 when the new property is purchased.

Finally, the higher rates will not apply to purchase of mobile homes, caravans or house boats; or to purpose built student accommodation.

Paying voluntary NICs

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There are various reasons as to why gaps may arise in an individual's national insurance contributions (NIC) record, for example, because that person has been on low earnings for several years, they have been living abroad, or because they have been unemployed and have not been claiming benefits. In certain circumstances therefore, it may be possible, and beneficial, to pay voluntary Class 3 National Insurance Contributions (NICs) as this can safeguard entitlement to a future state retirement pension and certain other state benefits.

Broadly, voluntary contributions may be paid for any tax year in which the individual is aged over 16 and is:

- employed, but not liable to pay Class 1 and/or Class 2 contributions (because earnings are too low to qualify for paying NICs);
- excepted from paying Class 2 contributions (because earnings from self-employment have not reached the entitlement threshold);
- not working;
- resident in the UK but living or working on secondment abroad; or
- self-employed.

An individual may get national insurance credits if there are unable to work, entitled to certain benefits, or in other specific circumstances, for example being on an approved training course or attending jury service. In addition, someone who cares for a child, or a sick or disabled person, payment of Home Responsibilities Protection (HRP) may cover gaps in a NIC record.

Topping up

Class 3 NICs are voluntary, so if a gap in contributions is discovered, the choice of whether to make good the shortfall is entirely up to the individual concerned. However, if the individual wishes to obtain full entitlement to benefits such as the state pension, contributions should be topped up in good time.

Voluntary contributions are payable at the rate of £14.25 per week for 2017/18. There are two main ways of paying Class 3 NICs:

- monthly: by direct debit - download application form CA5603 from the GOV.uk website;
- quarterly: HMRC will issue a bill every 13 weeks (if the individual lives in the UK), which can be paid at a bank, Post Office, or by Girobank.

Generally, the shortfall must be made up within six years. For example, Class 3 contributions for the 2011/12 year would need to be paid by 5 April 2018. Whilst the contributions do not need to be made until that date, the rate may increase, so it may be cheaper to do it sooner rather than later.

A self-employed individual may be exempt from paying Class 2 contributions because their income is below the small profits threshold (£6,025 for 2017/18), but he or she can currently pay voluntary Class 2 contributions to maintain their NIC record. These amounts are considerably cheaper than Class 3 contributions (the rate for 2017/18 is £2.85 per week) and they protect entitlement to more benefits. Class 2 NICs will be abolished from April 2018, so it may be worth checking NIC records before then.

In certain circumstances it is possible to pay up to an additional six years of voluntary Class 3 NICs to enhance entitlement to a basic state retirement pension. This is over and above those allowed under the usual time limits outlined above. See the GOV.uk website for further details.

August questions and answers

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Q. My wife has a part time job but doesn't earn enough to pay tax. Can she get tax relief on contributions made to a pension scheme?

A. Yes, even if you are not earning enough to pay income tax, you still qualify to have tax relief added to any contributions you make to a pension plan. However, the maximum you can pay in is £2,880 a year, or 100% of your earnings, subject to the 'annual allowance' restrictions.

Tax relief is added to the contributions at the basic rate of tax (currently 20%), so if you pay in £2,880 net, tax relief of £720 will be added, meaning that the gross contribution into the pension will be £3,600 (£2,880 x 100/80).

Q. I am a qualified doctor and pathologist. I have recently registered for VAT as my turnover has exceeded the current VAT registration limits. In addition to my regular doctor's practice, which I understand is still exempt for VAT, I also write medical reports for insurance companies. I understand that this service is standard rated. However, I have also recently been requested to carry out post mortems. I am statutorily obliged to carry out this work, but I am paid for it. Should I charge VAT on my invoices for this service?

A. As you state, some services will be taxable or exempt, depending on their primary purpose. This is particularly the case in the area of medical reports and certificates, and in these cases, it is necessary to establish their principal purpose, before liability can be determined. 7Where the service is principally aimed at the protection, maintenance or restoration of health of the person concerned, the supply is exempt. However, where a medical report is done solely to provide a third party with a necessary element for taking a decision for insurance or legal purposes, the supply is taxable at the standard rate.

Where a doctor is compelled by statute to perform a statutory service and charges a fee for it then the supply is outside the scope of VAT (see VAT Notice 701/57, para 4.13). Under Section 19 of the Coroners Act 1998 a coroner can appoint a doctor (pathologist) to carry out a post mortem if necessary. As this is a statutory requirement and the doctor must provide the service, any payment received will be outside the scope.

Q. I started my own business as a sole trader on 1 December 2016. Although it has been quite a slow start, my profits are slowing going up and I am hopeful that they will continue to rise steadily over the next few years. Should I use 30 November or the tax year-end as my accounting year-end?

A. As a general rule of thumb, choosing a year-end earlier in the year, such as 31 March, will generally give a business longer to pay its annual tax bill. This, in turn, can help considerably with the business cash-flow.

Taxpayers are generally required to make two equal payments of their income tax liabilities including any Class 2 and Class 4 NIC liability) on account:

- by 31 January in the tax year; and
- by 31 July following the tax year,

based on the total income tax payable directly in the previous tax year.

The balance, together with any capital gains tax, is normally payable (or repayable) by 31 January after the tax year.

August key tax dates

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2 - Deadline for PAYE settlement agreement for 2016/17

19/22 - PAYE/NIC, student loan and CIS deductions due for month to 5/8/2017

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