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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 in your own specific circumstances. **We're here to help!**

August 2016

Finance Bill 2016 progress top

There has been much **speculation on when the Finance Bill 2016 will receive Royal Assent.** According to the latest information, all stages of the Bill have been provisionally scheduled to take place in the House of Lords on Tuesday 13 September. It is expected that Royal Assent will be achieved shortly after that time.

HMRC Annual report published top

The National Audit Office has published a report on the 2015-16 accounts of HMRC.The report shows that **HMRC raised £536.8bn of tax revenues** during 2015-16, an increase of £19.1bn (3.7%) on 2014-15 and paid out £40bn in benefits and credits (approximately one-fifth of the government's total benefit expenditure). The taxes that contributed to most of this increase were income tax and National Insurance Contributions (NICs), which together increased by £10.3bn (3.8%); corporation tax, which increased by £4.1bn (9.9%); and VAT, which increased by £2.1bn (1.8%). Capital gains tax and Insurance premium tax also recorded significant increases, by 28.1% (to £7.3bn); and 27.6% (to £3.7bn) respectively. The annual cost of running HMRC was £3.2bn in 2015-16 (£3.1bn in 2014-15).

HMRC's other key performance indicator is the compliance yield, which measures the effectiveness of compliance and enforcement activities. HMRC's estimate of compliance yield in 2015-16 was £26.6bn against a target of £26.3bn.

HMRC have begun to implement plans to transform how tax is administered. The department's vision is to have 'the most digitally advanced tax system in the world'. By 2021, HMRC expect to employ 16% fewer staff, substantially rationalise their estate and automate more of their processes. In the past year HMRC have made plans to invest more than £2bn on this transformation in the next five years; launched digital accounts for individuals; announced plans to close 137 offices and the location of 13 new regional hubs; and secured agreement for their plans to replace their IT services contract, Aspire, which they have revised to reduce the risk of carrying out too much change too quickly.

The full report can be found here.

Spotlight on tax avoidance schemes

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HMRC have published Spotlight 31: change of date for withdrawal of transitional relief on investment growth, which covers the extension of the date of withdrawal of transitional relief currently available under FA 2011, Sch. 2, para. 59 from 30 November 2016 to 31 March 2017.

The withdrawal of the relief was announced at the 2016 Budget, as part of the package of changes to **tackle the use of disguised remuneration avoidance schemes** (such as Employee Benefit Trusts (EBTs) and contractor loans) and ensure that those who have used these schemes pay the correct amount of tax and National Insurance contributions.

The transitional relief was intended to work alongside the EBT settlement opportunity, which closed on 31 March 2015. However, HMRC are keen to ensure all users of disguised remuneration schemes have the opportunity to settle liabilities before the transitional relief in para. 59 is withdrawn. Therefore an amendment to Finance Bill 2016 has been tabled to extend the date for the withdrawal to 31 March 2017. The amendment, once enacted, will mean that users who want to benefit from the transitional relief on investment growth in para. 59 must have settled on or before 31 March 2017.

HMRC focus on contractor loan schemes

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HMRC have recently published new guidance on 'contractor loan schemes', which have been widely **marketed by scheme promoters as a method of receiving non-taxable income.** HMRC are adamant that such schemes do not work and they are likely to challenge anyone using them.

In a contractor loans scheme, an individual is paid in the form of a loan from a trust or company, sometimes referred to as a remuneration trust. The payment is not made directly by the engaging company, and will be diverted through a chain of companies, trusts or partnerships. Scheme promoters have claimed that payments are non-taxable, because they are just loans and don't count as income. However, since the loan is not paid back, the payments are to be treated as normal income and should be taxed accordingly. Those who use such schemes are highly likely to be regarded by HMRC as participating in tax avoidance arrangements, and this could result in additional taxes, penalties and interest becoming due.

In their guidance on the use of contractor loan schemes, HMRC specifically refer to the case of Boyle [2013] TC 03103, where the taxpayer's appeals against discovery assessments and/or closure notices in respect of a scheme for 'soft currency loans' from his employer, an Isle of Man company, failed. The Tribunal determined that the loans were not genuine and the money paid to Mr Boyle as loans was 'in substance and reality income from his employment' and therefore taxable.

All contractor loans schemes must be declared to HMRC and a scheme promoter is required to provide users with a scheme reference number. However, since HMRC never 'approve' schemes, the reality is that the reference number merely identifies users, which in turn, challenges HMRC to investigate it! HMRC are keen to point out that they win around 80% of avoidance cases that taxpayers take to court, and many more users choose to settle their affairs before that stage.

It is highly likely that an individual using a scheme will receive an 'accelerated payment notice' (APN) from HMRC, requesting them to pay tax and NIC up front, whilst the scheme is being investigated.

HMRC point out that they may contact a scheme user's clients to check their position relating to the contract. This may put vital working relationships at risk. They may also seek information provided to mortgage providers and other creditors about loans from schemes. If the level of income on your tax return is lower than the income disclosed on a mortgage application, HMRC state they may seek penalties.

HMRC strongly advise anyone using a scheme to withdraw from it and settle their tax affairs. There is a contractor loans helpline (0300 534 226) for anyone requiring further assistance.

Questions and Answers

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Q1. I have five employees who I recently took out for dinner to celebrate the success of the company. The total cost of the meal was £225. Do I have to report this as a benefit-in-kind to HMRC?

A: Finance Bill 2016 legislates for a new tax exemption relating to trivial benefits, which broadly means that if the cost of providing the benefit does not exceed £50 per employee, you will not have to account for it to HMRC, and the employees will not have to pay tax and NICs on it.

The cost of the benefit is defined in the legislation as:

- the cost of providing the benefit; or
- if the benefit is provided to more than one person and the nature of the benefit or the scale of its provision means it is impracticable to calculate the cost of providing it to each person to whom it is provided, the average cost per person of providing the benefit.

So, although different employees will have chosen different food and drinks, HMRC will accept that the cost per head can be taken as £45 (£225/5). The benefit of the meal will therefore be covered by the exemption as the cost per employee did not exceed the £50 trivial benefit limit. You will not have to report it to HMRC.

Q2. What are the tax implications if I sell a 20% share of my house to my son? The value of the share would be approximately £100,000.

A: There may be a charge to capital gains tax (CGT) on the money you receive from your son if the house has increased in value since you originally bought it.

If this is a first residential property for your son, he will not have to pay any stamp duty land tax (SDLT), but if he has previously bought a residential property, he will have to pay SDLT at the rate of 3%. If he buys out your entire share at some stage in the future, you could be liable to further capital gains tax and your son will certainly be liable to SDLT on the value of the remaining 80% of the house. Whether he will be liable to the additional 3% SDLT will depend on whether this is his first residential property purchase.

Q3. How long do I need to keep VAT records for?

A: VAT-registered businesses must:

- keep records of sales and purchases;
- keep a separate summary of VAT; and
- issue correct VAT invoices

In the UK, VAT records must be kept for at least six years (or ten years the trader uses the HMRC VAT mini-one-stop-shop (VAT MOSS) service. VAT records may be kept on paper, electronically or as part of a software program (e.g. book-keeping software) - but whichever method is used, the records must be accurate, complete and readable. HMRC can visit businesses to inspect record-keeping and impose penalties if the records are not in order.

August Key Tax Dates

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2 - Last day for car change notifications in the quarter to 5 July - Use P46 Car
19/22 - PAYE/NIC, student loan and CIS deductions due for month to 5/8/2016

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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