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Welcome...

To February'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!**

February 2017

HMRC's tougher approach to offshore tax evasion

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HMRC have implemented various measures over recent years designed to encourage those not paying the right amount of tax across their offshore tax affairs to make full disclosures. Whilst there has been a positive approach to the facilities provided, HMRC have recently reminded taxpayers **that things are about to get even tougher for those who try to hide investments offshore**.

To date, over 100 countries have committed to exchange information on a multilateral basis under the Organisation for Economic Co-operation and Development Common Reporting Standard (CRS) ,which means that HMRC will be receiving new financial information about their customers from more than 100 jurisdictions - this includes details about overseas accounts, structures, trusts, and investments - and they are already using information, supplied by overseas banks, insurers, and wealth and assets managers, to identify the minority who are not paying what they owe.

So what has changed? All HMRC offshore disclosure facilities closed with effect from 31 December 2015. Up to that date, HMRC offered various incentives to encourage people to come forward and clear up their tax affairs. That's no longer the case, but before automatic exchange and new sanctions come into force, the Worldwide Disclosure Facility (WDF) offers a final chance to come forward before HMRC use CRS data and toughen their approach to offshore non-compliance.

The facility opened on 5 September 2016. After 30 September 2018, new sanctions under a new 'Requirement to Correct' approach will be introduced that reflect HMRC's toughening approach. Disclosures can still be made after that date, but those new terms will not be as good as those currently available.

Anyone who wants to disclose a UK tax liability that relates wholly or partly to an offshore issue can use the facility. An offshore issue includes unpaid or omitted tax relating to:

- income arising from a source in a territory outside the UK;
- assets situated or held in a territory outside the UK;
- activities carried on wholly or mainly in a territory outside the UK; or
- anything having effect as if it were income, assets or activities of a kind described above.

It also includes funds connected to unpaid or omitted UK tax not included above, that have been transferred to a territory outside the UK or are owned in a territory outside the UK.

A regular check should be made to ensure that all UK tax liabilities have been declared. If in doubt, seek professional advice in the first instance.

Implementation timetable for Making Tax Digital extended

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Following representations from the House of Commons Treasury Committee, HMRC have published proposals to undertake a year-long pilot of the Making Tax Digital programme. HMRC are committed to having **Making Tax Digital fully operational by 2020**, and a pilot scheme is expected to run from April 2017 until April 2018.

Software developers have been invited to participate in the pilots, by asking their clients to sign up to trials. In the first six months of 2017, testing is scheduled for digital reporting of income from letting property, while participating taxpayers will be asked to report additional sources of income through their digital tax accounts.

Under current proposals, quarterly reporting will commence from April 2018 for landlords and self-employed, with micro businesses joining the regime further down the line.

Commenting on the proposals, Chartered Institute of Taxation (CIOT) President, Bill Dodwell said that the Institute is also pleased that the Committee agrees that the threshold for Making Tax Digital and quarterly reporting should be raised substantially from the proposed £10,000. A consensus is growing that the VAT threshold of £83,000 would be a more sensible cut off point. However, he also said that HMRC will need to consult thoroughly with businesses, their tax advisers and professional bodies and relevant charities in the period up to full implementation to ensure it works for HMRC, taxpayers and their representatives.

By 2020, businesses and individual taxpayers will be able to register, file, pay and update their information at any time of the day or night, and at any point in the year, to suit them. For the vast majority, there will be no need to fill in an annual tax return.

Further information on Making Tax Digital can be found on the Gov.uk website at https://www.gov.uk/government/publications/making-tax-digital.

Employers beware of plans to change Scottish income tax threshold

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Shortly before Christmas, the Scottish draft budget contained an announcement that **Scottish taxpayers will start paying the 40p higher rate of income tax at a lower point than taxpayers elsewhere in the UK**. This announcement means that businesses across the UK, not just in Scotland, will need to review their payroll systems to ensure that the proposed change can be accommodated.

Scotland's Finance Secretary Derek Mackay confirmed that the Scottish Government intends to restrict increases in the rate at which people start paying the higher rate of income tax to inflation only. This compares with the UK Government's proposal to increase the point at which people across the rest of the UK start paying the 40p rate to £50,000 by 2020/21. This will be the first time that the Scottish Government uses its powers to create different rates between Scotland and the rest of the

UK. In addition to affecting Scottish businesses, this change will also affect any employer outside of Scotland who either has or is looking to hire employees living in Scotland earning at or above the new Scottish higher rate threshold.

From April 2017, the Scottish Parliament will assume responsibility for further powers over income tax, enabling it to determine the rates and thresholds for income tax on non-savings and non-dividend income. It will not have control over the tax-free personal allowance, which remains reserved to the UK Government or other aspects of income tax such as reliefs, deductions or what counts as taxable income.

Coming soon: tax-free childcare

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Plans for the introduction of a new scheme called 'tax-free childcare' were initially announced way back in the 2013 Budget. The original proposals have since been amended and the scheme is now set to be implemented during 2017. Broadly, the new scheme, which aims to help working parents with the cost of childcare, will replace the current system of employer-supported childcare (ESC) which is offered by less than 5% of employers and used by around 450,000 families.

Parents will be able to open an online voucher account with a voucher provider and have their payments topped up by the government. **For every 80 pence that families pay in, the government will put in 20 pence**, up to the annual limit on costs for each child of £2,000 (£4,000 for disabled children). Parents will then be able to use the vouchers for any Ofsted-regulated childcare in England and the equivalent bodies in Wales, Scotland and Northern Ireland.

For the purposes of tax-free childcare, a 'parent' is defined as an individual who has responsibility for a child, and the child's primary residence must also be with the parent. This will ensure that adoptive parents, extended family members, and others who have taken on primary responsibility for raising a child, and who reside with the child, can also receive tax-free childcare. Lone parents will be eligible for the new scheme, provided they meet the criteria.

HMRC will consider the employment status of each member of a couple who live together as a household, including where one of the couple does not have responsibility for the child. Both parents must be in employment. Those families where only one parent in a couple is in employment, or where a lone parent is not in employment, will not be eligible for support.

The scheme will be available for children up to the age of 12, or 17 for children with disabilities.

To qualify, parents will have to be in work, and each expecting to earn at least £115 a week. Each parent must not have income over £100,000 per year.

Tax-Free Childcare will be launched from early 2017. The scheme will be rolled out gradually to families, with parents of the youngest children able to apply first.

Parents will be able to apply for all their children at the same time, when their youngest child becomes eligible. All eligible parents will be able to join the scheme by the end of 2017.

February questions and answers

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Q. Due to unforeseen circumstances I have recently had to sell my house and down-size to a smaller property. I sold the house for £20,000 less than I paid for it. Can I offset this loss against income from my business and reduce my income tax liability for this year?

A. Unfortunately the tax law does not permit you to do this. I am assuming that you are not trading in properties and the house was either your main residence or an investment asset. Losses on the sale of a principal private residence are generally not allowable losses for tax purposes. If the property was an investment asset, the loss on the sale may be treated as a 'capital loss', which could be offset against other capital gains you make, but it cannot be offset against other income. For further information on this, see the HMRC Capital Gains Manual at paragraph CG65080.

Q. I have some spare cash earning virtually no interest in the bank and I have decided that I would like to buy a flat for my daughter, who is currently just 16. Am I correct in thinking that she cannot own the property until she is 18? Is there an alternative for ownership? What are the tax implications surrounding this proposal?

A. You could consider using a bare trust for buying the flat. In very broad terms, a bare trust is a basic trust in which the beneficiary (in this case, your daughter) has the absolute right to the capital and assets within the trust, as well as the income generated from the assets. This type of trust is popular with parents and grandparents who wish to transfer assets to children or grandchildren. The assets are held in the name of a trustee (in this case, you), who will be responsible for managing the trust in a prudent manner so as to generate maximum benefit for the beneficiaries. However, you would not have control over the assets and no say or discretion in directing the trust's income or capital. However, since you will have provided the funds to buy the flat, under what is known as the 'settlements legislation' you will be taxed on the income from it until your daughter becomes 18.

When your daughter turns 18, you can change the name of ownership on the Land Registry documents, which is relatively straight-forward.

Q. I have been trading for several years. I am not currently registered for VAT but think my income is getting close to the VAT registration threshold. What items can I exclude from my 'taxable turnover' calculation?

A. When the 'taxable turnover' of a business reaches the VAT registration threshold, currently £83,000 per annum, it must register for VAT. As you state, any income you receive that is not counted as 'taxable turnover' is excluded from the £83,000 turnover figure.

There are several items that can be ignored when calculating 'taxable turnover' for VAT registration purposes. Any income that is 'exempt' from VAT is ignored. This commonly includes insurance, postage stamps or services; and health services provided by doctors or dentists.

In addition, income that is 'outside the scope of VAT' can be ignored. This includes:

- goods or services you buy and use outside of the EU;
- statutory fees - like the London congestion charge;
- goods you sell as part of a hobby - like stamps from a collection;
- donations to a charity - if given without receiving anything in return.

Supplies of services to business customers in another EU member state or any customer outside the EU are treated as outside the scope of UK VAT and do not count towards turnover for VAT registration purposes (for example: supplying consultancy services to a business customer in Spain).

Other non-business income that may be excluded includes disbursements incurred on behalf of a client, grants, or any income from employment.

Finally, it is worth noting that you can ignore any 'one-off' sales of capital assets. This means that if, for example, you sell a van and the income received puts the business turnover over the registration limit, the sales proceeds can be ignored.

February key tax dates

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

19/22 - PAYE/NIC, student loan and CIS deductions due for month to 5/2/201

28 - First 5% penalty surcharge on any 2015/16 outstanding tax due on 31 January 2017 still unpaid

- Talk to us about year end and pre-budget planning

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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