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

November 2018

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Apprenticeship levy to help smaller firms

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In a bid to make apprenticeship schemes more accessible, the Treasury has raised the amount of the apprentice levy that larger companies can transfer to smaller firms in their supply chain from 10% to 25%.

The change, which was announced by Chancellor Phillip Hammond at the Conservative Party conference, aims to provide additional flexibility for businesses so they can take full advantage of the benefits of employing apprentices, and to help as many people as possible find the right training to equip them for the new economy.

An extra £90 million of government funding will enable employers to invest a quarter of their apprenticeship funds on people working for businesses in their supply chain - boosting the number able to benefit from high-quality apprenticeship training.

A further £5 million has also been allocated to the Institute for Apprenticeships to introduce new standards and update existing ones, so that more courses can be offered - meaning more choice for those considering their training options. The old frameworks are to be discontinued so that all new apprenticeships will be on the same higher-quality standards by the start of the 2020/21 academic year.

In the coming weeks, the government will set out a process to seek views on the operation of the levy after 2020 to ensure it supports the development of the skilled workforce businesses need for the new economy.

The reforms have, however, met with some criticism from business leaders with the British Chambers of Commerce (BCC). Commenting on the Chancellor's announcements, Dr Adam Marshall, Director General of the BCC said that the review 'must introduce greater flexibility to the apprenticeship system, to ensure that businesses of all sizes can find and train the workforce they need'.

Dr Marshall went on to say that whilst the move to large firms to transfer unused levy funds down to smaller firms in their supply chain is positive, the government should go even further in the long-term, and allow levy-payers to transfer 50% of their funds, so that more companies in complex supply chains can train their people and boost productivity.

The BCC believes that the government also needs to urgently address the issues faced by smaller firms, not just by the bigger levy-payers. Dr Marshall stated that SMEs may not be paying the levy, but they have faced higher recruitment costs and great difficulty accessing the right training in recent months. He said that "ending the 10% co-investment that SMEs now have to pay would encourage more firms to take on and train new talent."

High Income Child Benefit Charge

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The High Income Child Benefit Charge (HICBC) is a tax charge tax charge will apply where the 'adjusted net income' of a taxpayer or their partner is more than £50,000 in a tax year, and they or their partner receive child benefit. The charge is equal to one per cent of a family's Child Benefit for every extra £100 of income that is over £50,000 each year. If an individual's income is over £60,000, the charge will equal the total amount of the Child Benefit.

Importantly, the charge does not only apply to the recipient of child benefit or the parents of the child in respect of whom child benefit is paid - **it can also affect the partner of someone who receives child benefit, even if the child is not theirs.**

Broadly, 'adjusted net income' is total taxable income less certain tax reliefs, for example, trading losses (for the self-employed), Gift Aid charity donations, and pension contributions.

So, for example, if 'adjusted net income' is £58,000, the HICBC will be 80% of the child benefit received.

Unfortunately there is currently a degree of unfairness in the system. In determining whether the charge applies, an individual's income will be considered in isolation to assess whether it exceeds the £50,000 trigger point. This means that, a couple earning £49,000 each (£98,000 in total) will escape the charge, whereas a single parent earning £60,000 will have to repay any child benefit in full.

Employed individuals who are liable to pay the charge, and normally pay tax through PAYE, will need submit a Self Assessment tax return to HMRC each tax year. The highest income earner should put the Child Benefit payments on their Self Assessment tax return for each year they get them. This does however, mean that the person liable to pay the charge may not be the person who actually received it the child benefit payments - a feature which unfortunately contradicts the principles of independent taxation.

Further guidance on the HICBC can be found [here](#).

Making use of the trading allowance

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The introduction of the new trading and property allowances for 2017/18 onwards mean that those with low levels of income from these sources may not need to report it to HMRC.

The trading allowance is £1,000 for 2017/18 and 2018/19. Broadly, **those with trading income of less than £1,000 a year, no longer need to report it to HMRC.** This may be particularly useful for people with casual or small part time earnings from self-employment, for example, someone who up-cycles old furniture for resale on eBay or similar.

Where the trading income is more than £1,000, the trader has the choice of either deducting the £1,000 allowance from income to arrive at the taxable profit, or computing profits in the usual way by deducting actual expenses.

Practical implications of the allowance include:

- where actual expenses are less than £1,000, deducting the trading allowance will be beneficial, whereas if actual expenses are more than £1,000, deducting the actual expenses will give a lower profit figure, and ultimately a lower tax bill.
- where income is less than £1,000, but the individual makes a loss, an election for the allowance not to apply may be made. In this case, the loss in the usual way and include the details on their tax return. This in turn, means that loss relief is not wasted.

Example - Mary's bake-off

Mary enjoys baking and makes celebration cakes in her spare time, which she sells to family and close friends. In 2017/18 her income from cake sales was £800 and her expenditure was £150. As her trading income is less than £1,000, she does not need to report it to HMRC.

Example - Marty's memorabilia

Marty is an avid collector of sporting memorabilia but he regularly sells items he no longer wants and duplicate items via an online member's forum. In 2017/18, his income from sales was £1,500 and his expenditure was £450.

As Marty's expenditure was less than £1,000, it will be beneficial for him to claim the trading allowance. His taxable profit will be £500 (£1,500 less the trading allowance of £1,000).

Software requirements under MTD

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Under HMRC's new Making Tax Digital (MTD) regime, which kicks in for VAT-registered businesses with a taxable turnover in excess of £85,000 from April 2019, **businesses will no longer be able to keep manual records.**

Currently, spreadsheets are commonly used - not only to maintain records, but also to convert the information from accounting software into the VAT return figures. MTD requires spreadsheets to interact directly with software. Overcoming these issues may be challenging.

Compatibility

MTD requires businesses to maintain relevant information about sales and purchases in an electronic format, using 'functional compatible software'.

Compatible software is a software product or set of software products that between them support the MTD obligations of keeping digital records and exchanging data digitally with HMRC through the MTD service.

If more than one application is being used, data that flows between those applications must also be exchanged digitally.

Digital records can be kept in a range of compatible digital formats. They do not all have to be held in the same place or on one piece of software. For example, a spreadsheet can be a component of digital record keeping provided the product that consolidates records, or summary records from the spreadsheet, can exchange data digitally with HMRC.

Digital links

Data transfer or exchange within and between software programs, applications or products that make up functional compatible software must be digital where the information continues to form part of the digital records. Once data has been entered into software used to keep and maintain digital records, any further transfer, recapture or modification of that data must be done using digital links. Each piece of software must be digitally linked to other pieces of software to create the digital journey.

HMRC will also accept digital links as:

- emailing a spreadsheet containing digital records to a tax agent so that the agent can import the data into their software to carry out a calculation (for instance, a VAT partial exemption calculation);
- transferring a set of digital records onto a portable device (for example, a pen drive, memory stick, flash drive) and physically giving this to an agent to import that data into their software;
- XML, CSV import and export, and download and upload of files;
- automated data transfer;
- API transfer; or
- linked cells within or between spreadsheets. The transfer of information by the use of copy and paste or cut and paste does not meet the requirement for a digital link.

HMRC have confirmed that they will give businesses until 31 March 2020 to make sure there are digital links between software products. Before that date, cut and paste will be an acceptable way to transfer information.

The exception to this is where return information is to be transferred to a software product enabled for an Application Programming Interface (an API provides a secure link between software and HMRC) and designed to submit the 9-box VAT return (such as bridging software). In those circumstances the transfer of information must only be digital.

Bridging software

'Bridging software' is HMRC's description of the digital tool that can take information from other applications, for example, a spreadsheet or an in-house record keeping system, and lets the user send the required information digitally to HMRC in the correct format.

Functionality

The functions of the compatible software must include:

- keeping records in a digital form as required by regulations;
- preserving digital records in a digital form as required by regulations;
- creating a VAT return from the digital records held in functional compatible software and providing HMRC with this information digitally;
- providing HMRC with VAT data on a voluntary basis;
- receiving information from HMRC via the API platform in relation to a relevant entity's compliance with obligations under the regulations.

Choosing software

How an organisation chooses MTD compatible software will depend on various factors, such as:

- existing level of technology maturity; and
- current business model.

For example, a business that makes use of very little technology may well wish to consider spreadsheet bridging software - this should enable information to be lifted from the spreadsheet and upload it to HMRC.

The long-term future of a business should also be considered. Business models and technology continues to progress at an alarming rate. As a result, all organisations will need to consider how they will remain competitive in the future. Maybe it will be wise to invest in a more comprehensive

application at an earlier date, so that it can continue to fulfil business needs for several years to come.

Organisations that are already making extensive use of information technology will need to ensure that their software supplier will be able to provide MTD compatible versions of the applications that they may use. In these cases the existing and future requirements of an organisation will need to be considered.

November questions and answers

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Q. Are there any advantages to registering voluntarily for VAT even if my taxable turnover is less than the registration threshold?



A. A business can register for VAT even if its turnover (total sales) is below the threshold and it may actually save tax by doing so, particularly if its main clients or customers are organisations that can reclaim VAT themselves.

Say you want to purchase a new office printer for your business which costs £100 plus VAT, i.e. £120. You set the £120 paid out against your profits for income tax purposes. If you are a basic rate taxpayer paying tax at 20%, this deduction will save you £24 on your tax bill (20% of £120), so the printer actually costs you £96.

However, you were registered for VAT, you can reclaim the £20 VAT paid on the item (the input tax) and set £100 against your profits for income tax. The tax reduction is therefore £20 (20% of £100) and the printer costs the business just £80 - so £16 is saved by being registered for VAT.

VAT-registered businesses supplying goods and services to private individuals often feel disadvantaged compared to their non-registered counterparts because they have to charge an additional 20% on every bill issued.

Q. What counts as a gift for inheritance tax purposes?

A. The broad answer is that for inheritance tax purposes, a gift is anything that has value, for example, money, property or possessions. However, a gift may also arise if the value of an individual's estate is reduced following a transfer of value, for example, if you sell your house to your children for less than it is worth; the discount element will be treated as a gift.

Gifts to spouses and civil partners are free of inheritance tax.

The IHT annual gifts exemption allows individuals to give away £3,000 of gifts in total each tax year. If the exemption is not used in full in one tax year, the unused amount can be carried forward to the following year, after which it is lost if it is not used.

Tax-free gifts can also be made, up to certain limits, on the occasion of a marriage or civil partnership. The tax-free limit for wedding gifts is £5,000 where the gift is to a child of yours, £2,500 where it is to a grandchild and £1,000 where the gift is to someone else.

Other small gifts of up to £250 per person, per year can be made free from IHT. Such gifts can be made to as many people as you like, as long as the recipient has not benefited from another exemption.

There is also a useful IHT exemption for 'normal expenditure out of income', which may be used to make tax-free lifetime gifts. It is often used by grandparents to pass money to grandchildren (say by way of a monthly standing order), or to pay for school fees. For the exemption to apply, the gift must satisfy the following conditions:

- it must form part of the donor's regular expenditure
- the gift must be made out of income (taking one year with the next)
- the donor must retain sufficient income to maintain their normal standard of living.

Gifts made in this way are completely exempt from IHT - they are not subject to the seven year rules applicable to Potentially Exempt Transfers (PETs).

Q. I am a builder. I have recently started operating the construction industry scheme (CIS) although it is still quite new to me. I have recently taken on two labourers, both of whom are registered with HMRC as subcontractors. One of the subcontractors worked for me 3 months ago, the other has never worked for me. Could you please clarify what I need to do with regards deducting tax from their wages?

A. Before you can pay a new subcontractor, you need to 'verify' them with HMRC. HMRC will tell you:

- whether they're registered for the CIS; and
- what rate of deduction to use or if they can be paid without making deductions.

You do not, however, need to verify a subcontractor if you have included them on a CIS return in the current or last 2 tax years.

The CIS deduction rates are currently as follows:

- 20% for registered subcontractors
- 30% for unregistered subcontractors
- 0% if the subcontractor has 'gross payment' status - for example they don't have deductions made

You are required to these deductions to HMRC as they count as advance payments towards the subcontractor's tax and National Insurance bill.

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 5/11/2018



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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