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## Welcome...

To Spring Statement, 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!**

## Spring Statement 2018



## Summary

top

Chancellor Philip Hammond said it would be a short, snappy affair when he delivered the government's first Spring Statement to the House of Commons today, and this was indeed to be the case - it took just 30 minutes to cover the key points.

The statement focused on the latest forecasts for the economy and the public finances provided by the government's independent forecaster, the Office for Budget Responsibility (OBR), which last reported in November 2017.

The Chancellor, who commented that he was feeling positively 'Tiggerlike', confirmed OBR reports that the economy has grown for five consecutive years, and exceeded expectations in 2017. GDP growth is forecasted at 1.5% in 2018 (up from 1.4%), whilst inflation is expected to fall over the next 12 months. Borrowing has fallen by three-quarters since 2010 - In 2009-10, the UK borrowed £1 in every £4 that was spent. The OBR expects that we will borrow £1 in every £18 this year.

However, the Chancellor went on to say that the UK's debt remains too high, equal to around £65,000 per household and this makes the economy vulnerable to future shocks. The government also views this as significant burden on future generations. The cost of debt interest payments is around £50 billion each year - more than the amount spent on the police and armed forces combined.

The government has previously stated a firm commitment to balancing its approach to reducing debt whilst continuing to fund public services, keeping taxes low, and investing in Britain's future. With this in mind, the Chancellor confirmed that the Treasury would be keeping a careful watch over the public purse in the coming months and if, and only if, scope became apparent for any manoeuvrability with regards taxes and further funding for public services, then any such announcements will be made in the Autumn Budget.

As expected, no changes to tax were announced in the Spring Statement. However, in advance of the 2018 Autumn Budget, a series of consultations has been launched inviting views on possible future changes to the tax system. These are summarised in the following paragraphs.

## Online platforms

top

Online platforms and marketplaces are seen as being good for the economy and for consumers, who benefit from lower prices and more choice. However, some people who earn money from using these platforms may never have earned money without an employer to act as an intermediary between them and HMRC before, and can find it difficult to understand and meet their tax obligations. Most people want to comply with their tax obligations and the government believes the system should help them, but limit opportunities for the minority who seek to avoid paying their fair share.

The consultation, entitled The role of online platforms in ensuring tax compliance by their users, will explore how the government can build on work already undertaken with online marketplaces to gain a better understanding of how platforms interact with their users currently, what they know about them, and understand more about attitudes to tax among people earning money through platforms.

The government wants to ensure that, where people have tax obligations because of these new opportunities, it is as easy as possible for them to comply. However, research suggests that some who provide goods or services through online platforms do not fully understand or are unaware of their tax obligations. For example, HMRC research found a quarter of those operating in the sharing economy through online platforms are not confident about their knowledge of tax obligations.

At the same time, there will always be those who seek to exploit opportunities to undermine the tax system. Some platform users will be existing businesses or individuals taking advantage of platforms to access new markets, and of those, as with the wider business population, there will be a minority who try to avoid paying their fair share. The government needs to minimise opportunities for people to exploit this area of the economy to evade their tax obligations, at the same time as supporting those who want to comply. It is keen to explore what role platforms could play in tax administration, in the way other intermediaries, such as employers, have done in the past and continue to do.

The government intends to focus this work principally on direct tax in the first instance. However, it recognises that there may be similar challenges and opportunities in the wider tax system. The government will consider in due course whether the outcomes of this work could be applied more widely.

The consultation will run until 8 June 2018.

## Self-funded work-related training

top

The government has launched a consultation on plans to extend the existing tax relief available for self-funded work-related training by employees and the self-employed, as part of the government's focus on creating an environment for individuals to develop their skills to boost productivity in the UK.

Most employers fund the work-related training of their employees, although sometimes the employee might pay for the training themselves and subsequently have the costs reimbursed. The current rules mean employers can deduct these costs for tax purposes. Employees are not taxed on the benefit when their employer pays for, or reimburses them for, the cost of work-related training and certain associated costs. Tax relief is also available in certain circumstances when an employer funds retraining to help an employee find another job with a new employer or set up as self-employed. However, some employees pay for work-related training and this is not reimbursed by their employer. Employees cannot currently receive tax relief other than in limited circumstances when the training is an intrinsic contractual duty of their existing employment. The self-employed can deduct the costs of training incurred ‘wholly and exclusively' for their business where it maintains or updates existing skills but not when it introduces new skills. This consultation will look at possibilities of making the rules fairer for everyone regardless of employment status.

The consultation will run until 8 June 2018.

## Entrepreneurs' Relief

top

At present, entitlement to the special 10% rate of capital gains tax may be lost when an entrepreneur's company issues new shares and as a result causes their personal stake to fall below 5%. A proposal announced at Autumn Budget 2017, will allow an individual in this position to elect to be treated as if they had disposed of their shares and reacquired them at their market value just before the time the company issued new shares. The individual may claim Entrepreneurs' Relief on that gain either at the time of election, or on a future disposal of shares.

The consultation document, entitled Financing growth in innovative firms: allowing Entrepreneurs' Relief on gains before dilution, sets out the proposed changes in more detail, and invites views on how they will work in practice.

The consultation will run until 15 May 2018.

## Alternative method of VAT collection - split payment

top

In relatively recent years, the expansion of e-commerce has posed a significant challenge to the UK VAT system. Certain businesses fail to charge VAT when they are supposed to on sales of goods to UK consumers. This non-compliance not only deprives the Exchequer of monies needed to fund public services (estimated at £1-1.5 billion in 2015-16), but also undercuts the honest majority of businesses. Whilst the Government has already taken action to address this issue (for example, introduction of the joint and several liability rules to hold online marketplaces responsible for the unpaid VAT of sellers on their platforms), it now wishes to go further in combatting online VAT fraud by harnessing new technology and exploring the possibility of introducing a new method of VAT collection.

The consultation document entitled Alternative method of VAT collection - split payment examines potential for utilising payments industry technology to collect VAT on online sales and transfer it directly to HMRC. HMRC believe this would significantly reduce the challenge of enforcing online seller compliance and offer a simplification for businesses. It sets out how the potential mechanism could work, how the system could be enforced, and considers a number of options for how the VAT could be accounted for.

The consultation will run until 29 June 2018.

## VAT registration threshold: call for evidence

top

At Autumn Budget 2017, the Chancellor recognised that the UK had by far the highest threshold in the OECD and concerns about the cliff edge nature of the threshold. However, he noted that a high threshold has the benefit of keeping the majority of UK businesses out of VAT altogether. He announced that the government was not minded to reduce the threshold, but instead would consult on whether the design of the threshold could better incentivise growth. In the meantime, the threshold will remain at £85,000 for two years from April 2018.

The document entitled VAT registration threshold: call for evidence is split into three sections:

- the first explores in more detail how the threshold might currently affect business growth;
- the second looks in more detail at the burdens created by the VAT regime at the point of registration, and why businesses might manage their turnover to avoid registering; and
- the third considers possible policy solutions, based on international and domestic examples.

By way of background, the VAT registration threshold is a simplification measure that keeps businesses with a turnover at or below the threshold from having to register and account for VAT and it is estimated that some 3.5 million businesses benefit from its existence. The UK threshold of £85,000 is the highest in the EU and the OECD, more than double the average in the EU and the OECD which is around £29,000 for both. The VAT threshold exempts businesses from VAT, and therefore costs the Exchequer money each year. In 2017/2018 it is forecast to cost £2.1billion.

The deadline for responses to this consultation is 5 June 2018.

## Cash and digital payments in the new economy

top

Digital technology has revolutionised the way people shop, sell, and save, and people are increasingly moving away from using cash. According to government research, cash has fallen from being 62% of all payments by volume in 2006, to 40% in 2016, and is predicted by industry to fall to 21% by 2026. It represented only 15% of the total value of consumer spending in 2015.

Meanwhile, the growth in the use of digital payments has been rapid. Contactless payments made each month have grown by nearly twenty times in the three years to June 2017.Research suggests that two-thirds of people are making more payments digitally than they did five years ago.

The document Cash and digital payments in the new economy: call for evidence is a call for evidence to better understand the role of cash and digital payments in the new economy, with the aim of keeping pace with changes in the ways that people pay for goods and services.

The review will look at how the transition from cash to digital payments impacts on different sectors, different regions and different demographics. It is seeking both domestic and international evidence of what the government can and should do in this area. It will also consider barriers to the adoption of electronic payments, including charges, and will consider whether the current denominational mix of coins and banknotes should be changed. It looks at some of the issues around counterfeit coins and notes and also the use of cash for money laundering and to avoid tax.

The consultation closes on 5 June 2018.

## Security deposits

top

The government announced at Autumn Budget 2017 that the current scope of the security deposit legislation will be extended to include corporation tax and Construction Industry Scheme (CIS) deductions from April 2019. HMRC are now seeking views on proposals for implementing this change to ensure that it is introduced in the most effective way, that the legislation is targeted, and that there are appropriate safeguards. The proposals are set out in the consultation document entitled Extension of the existing security deposit legislation to include CT and CIS deductions.

One of the compliance tools currently available to HMRC is the power to require high-risk businesses to provide an upfront security deposit, where they believe that there is a serious risk to the revenue. Security intervention is only considered in a small number of cases where there is clear evidence that a significant amount of revenue, relative to the size of the business, is at risk. In addition, there must either have been failure to comply with return filing and payment obligations, or the personnel actively involved in a current business must have been actively involved in another business that failed to pay the taxes that were due.

HMRC currently have powers to require a security deposit in respect of VAT, Pay As You Earn (PAYE) and National Insurance Contributions (NICs), Landfill Tax, Aggregates Levy, Climate Change Levy, Insurance Premium Tax and certain Gambling Duties. However, HMRC are aware that the non-compliant behaviours which trigger security action will typically be found across other aspects of these businesses' tax affairs. This consultation therefore seeks views on proposals to extend the legislation to corporation tax and CIS deductions.

The consultation will run until 8 June 2018.

## Financing growth in innovative firms: Enterprise Investment Scheme knowledge-intensive fund consultation

top

Evidence gathered during a recent consultation suggested that knowledge-intensive firms - which have high growth potential but are R&D- and capital intensive - have the most difficulty obtaining the capital they need to scale up. The Autumn 2017 Budget subsequently announced that the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) schemes would therefore be significantly expanded for knowledge-intensive companies. The government also announced that it would consult on a new EIS fund structure aimed at improving the supply of capital to such companies.

A new consultation (Financing growth in innovative firms: Enterprise Investment Scheme knowledge-intensive fund consultation) aims to build the government's understanding of the capital gap that knowledge-intensive companies face, and seeks views on the best way of closing that gap. It explores possible options for an EIS fund structure aimed specifically at investment in knowledge-intensive companies, while making clear the limitations within which such a fund model would operate.

The government considers that the definition of a knowledge-intensive company that is currently used in the venture capital schemes effectively captures the types of firm that have the most acute problems gaining investment. It is also conscious of the need for both investors and companies to have as much stability as is possible. It therefore intends to base any new fund structure on this existing definition.

The EIS is a notified state aid and any changes to the scheme will have to take into account constraints on state aid. This consultation may lead to changes before the UK leaves the European Union. As the UK is still subject to state aid rules, the consultation seeks responses consistent with the current state aid regime.

The design of any fund model would need to be proportionate to an identified market failure in the supply of capital to knowledge-intensive firms. For example, the EIS, SEIS, and VCT schemes already have among the most generous rates of income tax relief for schemes of their kind in Europe. The government is not considering raising the rates of income tax relief for the schemes.

The deadline for responses to this consultation is 11 May 2018.

## Tackling the plastic problem

top

As widely speculated, the Chancellor announced a call for evidence to explore how changes to the tax system or charges could be used to reduce the amount of single-use plastics, by reducing unnecessary production, increasing reuse, and improving recycling.

In the consultation document entitled Tackling the plastic problem: using the tax system or charges to address single-use plastic waste , the government says it will also explore how it can drive innovation in this area to achieve the same outcomes, with funding available for businesses and universities to carry out work in this area.

The aim is to look at how the same economic incentives can drive innovation, for example by stimulating businesses to develop and integrate new technology, or by encouraging growth in the recycling industry by addressing barriers to investment.

The consultation will look broadly across the whole supply chain, from production and retail to consumption and disposal, in order to gain the best possible understanding of the whole landscape before the government decides on a course of action.

The consultation runs until 18 May 2018.

## 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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