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Welcome...

To May'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!**

May 2017

Automatic enrolment for pensions top

To encourage workers to start building up retirement benefits, the Pensions Act 2008 introduced certain reforms requiring all employers to offer workplace pension schemes and to enrol eligible workers into their schemes. These reforms are commonly known as the 'automatic enrolment' provisions. Automatic enrolment is currently being phased in, starting with the largest UK employers - eligible employees should have been enrolled by 1 February 2018 at the latest. By October 2018, all existing employers will be required to offer workplace pensions to eligible workers.

Broadly, 'eligible workers' are workers who:

- are aged between 22 and state pension age;
- earn over the earnings threshold, which is currently £10,000 a year; and
- work, or ordinarily work, in the UK and have a contract of employment, or who have a contract to provide work and/or services personally.

The minimum total contributions under automatic enrolment have been set down by the government and are set to increase between now and April 2019. Employers must pay some of the minimum total contribution, but where **the employer does not pay the whole of the minimum total contribution**, the employee will need to make up some of the difference. Tax relief will be due on contributions, and even those who do not earn enough to pay income tax will generally be able to obtain tax relief on their contributions when they are added to the scheme pension pot.

The minimum total contribution to the scheme is usually based on 'qualifying earnings'. This is broadly calculated as earnings from employment (which can include wages, salary, commission and bonuses), before income tax and National Insurance contributions is deducted, that fall between the lower and upper earnings limits that have been set by the government (currently £5,876 and £45,000 respectively for 2017/18).

If the employer decides to pay only the minimum amount, the minimum total contribution, as a percentage of qualifying earnings is worked out as follows:

- the employer pays: 1.0% of qualifying earnings until 6 April 2018, rising to 2.0% until 6 April 2019, then rising to 3.0%;
- the employee pays: 0.8% of qualifying earnings until 6 April 2018, rising to 2.4% until 6 April 2019, then rising to 4.0%;
- tax relief: the government adds tax relief of 0.2% of qualifying earnings until 6 April 2018, rising to 0.6% until 6 April 2019, then rising to 1.0%;
- total contributions will therefore be 2.0% of qualifying earnings until 6 April 2018, rising to 5.0% until 6 April 2019, then rising to 8.0%.

The employer may choose to base contributions on the employee's 'pensionable pay', rather than 'qualifying earnings'. This is most likely to be the case where the employer provided a workplace pension scheme before the introduction of automatic enrolment. 'Pensionable pay' will be defined by the rules of the pension scheme. Typically, pensionable pay is basic salary, not including, elements of earnings such as commission, bonuses and overtime.

Example

John's employer offers a workplace pension scheme under the automatic enrolment provisions and agrees to pay in the minimum total contributions required. John's current annual salary is £25,000 per annum (20176/18). His qualifying earnings are therefore £25,000 - £5,876 = £19,124 per year.

- John's employer will pay £191.24 (1% of qualifying earnings)
- John will pay £153.00 (0.8% of qualifying earnings)
- Tax relief is due on the 'grossed up' value of John's contributions (at the 20% basic rate), which equates to £38.25 (£153 x 100/80 = £191.25 x 20%)
- Total contribution to pension scheme is therefore £382.49.

Practical Tip

The Pensions Regulator website provides further guidance on automatic enrolment and includes a staging date calculator, which can be used by employers to check their staging date.

Tax-free savings update

top

Although interest rates for savings generally remain low, there are still a few tax-efficient savings opportunities on offer, with increased savings thresholds taking effect from 6 April 2018.

Individual Savings Accounts

Broadly, cash ISAs are available to investors aged 16 and over, who are resident in the UK, and stocks and shares ISAs are available to UK-resident individuals aged 18 and over. The maximum annual investment limit has been raised to £20,000 from April 2017, which means that a couple can now invest up to a sizeable £40,000 for 2017/18. Interest paid on the investment will be tax-free for both income and capital gains tax.

Junior ISAs operate along similar lines to 'adult' ISAs. The maximum investment limit for 2017/18 into Junior ISA accounts is £4,128, so there is scope for parents and grandparents to make tax-free savings investments on behalf of their children/grandchildren. Since it is also now possible for children to hold both Junior ISA and Child Trust Fund (CTF) accounts, parents are offered increased flexibility to look for higher-yielding products.

It might be worth noting that the Government has stated its intention to make regulations so that the

ISA savings of deceased individuals can continue to benefit from income tax and capital gains tax advantages, where those savings are retained in an ISA. Although the start date for this change has yet to be confirmed, it should be borne in mind when thinking about ISA investments.

Help-to-buy ISAs continue to be available to assist first-time buyers save a deposit to purchase their first home. Broadly, up to £200 a month can be saved in the ISA (along with an initial deposit of £1,000) and, provided certain conditions are met, the government will provide a 25% boost to the savings up to a maximum of £3,000 per person. The maximum that can be saved in the ISA is £12,000. Taking into account the government bonus, a couple buying together could save up to £30,000 tax-free towards the purchase of their first home. It will take around four and a half years to achieve this level of savings under the scheme.

NS&I Premium Bonds

Although National Savings and Investments (NS&I) Premium Bonds cannot really be called an investment, any returns by way of 'winnings' will be tax-free. The odds on winning a prize in any one month currently stand at 30,000 to one. The number of monthly £100,000 prizes has been reduced from five to two and, for the £50,000 prizes, from 12 to just five. The prize fund rate was 1.25% until April 2017, but is reduced to 1.15% from May 2017. This rate represents the amount a typical saver will receive with average luck over a year – although many will receive far less than this. However, despite the reduction in prizes and odds, with more than £52 billion currently invested, premium bonds remain one of Britain's favourite ways to save in a tax-efficient way.

Tax on savings income

The Personal Savings Allowance (PSA), which was introduced from 6 April 2016, remains at £1,000 for basic rate taxpayers and £500 for higher rate taxpayers, for 2017/18. Running alongside the PSA is the starting rate for savings, which, for 2017/18, remains at 0% on a maximum threshold of £5,000. The 0% band is restricted by non- savings taxable income so that none of the band will be available if that income is above the personal allowance (and blind person's allowance if claimed) plus the £5,000 starting rate. The two allowances work together and are dependent on total taxable income.

In most cases, the annual personal allowance and PSA will cover any tax liability arising on interest earned. Therefore, when choosing a savings plan, the major consideration is likely to be the interest rate on offer and potential return on the investment, rather than the tax-free status of the account.

HMRC launch consultation on employee expenses top

As confirmed the Spring Budget 2017, HMRC have launched a consultation on the use of the income tax relief for employees' business expenses, including those that are not reimbursed by their employer. The main objectives of the consultation, which will run until 12 June 2017, are to understand:

- if the current rules or their administration can be clearer and simpler;
- whether the tax rules for expenses are fit for purpose in the modern economy; and
- why the cost to the exchequer of the tax relief for expenses which are not reimbursed has increased.

Expenses form an integral part of the tax system as tax relief can be claimed on eligible expenses. However, the cost of providing this relief is significant - HMRC state that the tax relief on expenses which employers do not reimburse and employees then claim from HMRC **costs the Exchequer £800m per year**, and there has been a 25% increase in claims between 2009-10 and 2014-15.

The current rules

It is important that employees and employers are both clear on what tax reliefs employees are entitled to claim. Broadly, tax relief is available when expenses are incurred 'wholly, exclusively and necessarily in the performance of the duties of the employment'. Expenses which put an employee in a position to do their job (such as the cost of ordinary commuting) are not eligible for tax relief. There are also provisions for relief for specific expenses, such as professional fees and subscriptions, and travel and subsistence.

When employers pay for or reimburse expenses that are eligible for tax relief, the payment is not taxed. For example, if an employee pays for a train ticket to travel from their permanent office to another office for a business meeting, and their employer reimburses the cost of the train ticket, the reimbursement is not liable to income tax or National Insurance contributions. However, if an employer pays a round sum cash allowance to cover potential expenses, such payments will be taxable in full.

Simplified expenses

The administration of the tax relief for expenses paid for or reimbursed by the employer was simplified from April 2016 with the introduction of an exemption for paid or reimbursed expenses. Under this exemption, qualifying expenses can be paid by employers free of tax without the need for an employer to apply to HMRC for a dispensation. These expenses do not need to be returned to HMRC at the end of the tax year on form P11D, and employees no longer need to make a claim to HMRC for a corresponding tax relief.

When employers do not reimburse expenses that employees have incurred, the employee can deduct them from his taxable income and subsequently claim tax relief at his marginal tax rate on costs incurred.

For some expenses which are not reimbursed, employees can claim a flat rate expense allowance. HMRC have agreed allowances based on the amount typically spent each year by employees in a wide range of industries and occupations to remove the burden for employers and employees of calculating a large number of small claims and retaining evidence for these. For example, employees who need to pay for the cost of repairing and maintaining tools and specialist clothing for work can apply for tax relief in this way.

The future

Although the consultation document states that the government has no plans to remove the relief on employee expenses, changes to current procedures may be expected in the future.

VAT Flat rate scheme: changes take effect

top

The VAT flat rate scheme (FRS) is used by many small businesses to help simplify their VAT reporting obligations. **Businesses could often gain a cash advantage from using the scheme**, but this advantage has been significantly curtailed from 1 April 2017, particularly in relation to service-related businesses. Whilst the FRS continues to operate, many businesses will no longer find it economical to use.

Broadly, the FRS is a simplified VAT accounting scheme for small businesses, which allows users to calculate VAT using a flat rate percentage by reference to their particular trade sector. When using the FRS, the business ignores VAT incurred on purchases when reporting VAT payable, with the exception of capital items which cost £2,000 or more. If the business incurs few expenses, and it operates in a sector with a relatively low FRS percentage, it will pay out less VAT to HMRC under the FRS than it would outside the scheme. Historically, many businesses have registered for VAT voluntarily before their turnover reached the VAT registration threshold, so they could make use of the cash advantage offered under the FRS.

Common percentages used by service-related businesses in recent years include:

- Accountancy and legal services 14.5%
- Computer or IT consultancy 14.5%
- Estate agents and property management 12%
- Management consultancy 14%
- Business services not listed elsewhere 12%

However, from 1 April 2017 a new 16.5% FRS rate applies for businesses with limited costs (see below). Since the rate of 16.5% of gross turnover equates to 19.8% of the net, the result is that there will be almost no credit for VAT incurred on purchases. Many businesses, particularly in the trade sectors listed above, are likely to see a significant rise is VAT payments.

A 'limited cost' business is defined as one whose VAT inclusive expenditure on goods is either:

- less than 2% of their VAT inclusive turnover in a prescribed accounting period;
- greater than 2% of their VAT inclusive turnover but less than £1,000 per annum if the prescribed accounting period is one year (if it is not one year, the figure is the relevant proportion of £1,000).

Goods, for the purposes of this measure, must be used exclusively for the purpose of the business but exclude the following items:

- capital expenditure goods;
- food or drink for consumption by the flat rate business or its employees;
- vehicles, vehicle parts and fuel (except where the business is one that carries out transport services
- for example a taxi business - and uses its own or a leased vehicle to carry out those services).

(These exclusions are part of the test to prevent traders buying either low value everyday items or one off purchases in order to inflate their costs beyond 2%.)

Practical Tip

Businesses who are trading under the VAT threshold (£85,000 from 1 April 2017) may consider deregistering from VAT. Businesses who are trading over that threshold may wish to withdraw from the FRS.

May questions and answers

top

Q. My company owns a car which is used during the day by various employees for business travel only. However, since there is no overnight parking facility at our business premises, one of my employees takes the car home each night and parks it outside his house. He does not use the car privately. Am I correct in assuming that no taxable benefit arises?

A. Unfortunately not. To qualify for exemption under the pool car rules, the vehicle must not normally be kept overnight on or near the residence of any of the employees. In addition, home to work mileage is counted as private use, so if the car is being taken home every night by the same employee then the private use is unlikely to be considered merely incidental. It is unlikely that HMRC would accept that no taxable benefit arises in this case.

Q. My elderly mother-in-law has an income of around £18,000 a year, which is made up of state retirement pension, widow's pension and attendance allowance. Should she be paying any income tax on this?

A. Attendance Allowance is a weekly amount of state benefit paid to qualifying individuals to help them with personal care because they are physically or mentally disabled and aged 65 or over. It is paid at two different rates depending on the level of care needed. It is however, a tax-free state benefit. If the widow's pension is a War widows pension, it will also be exempt from tax, but if not, then it will be taxable (note that Bereavement Allowance replaced widow's pension some years ago and new claims are no longer accepted). The state retirement pension is taxable but your mother-in-law should be entitled to the personal allowance of £11,500 for 2017/18, which she can off-set against this.

Q. I recently entered into a contract to sell my former trading premises. The sale agreement was unconditional, with a deposit being paid by the purchaser of £25,000. The balance was due

to be paid in two equal annual instalments. However, the buyer has now told me that he has fallen on hard times and will not be able to proceed with the purchase. Under the terms of our agreement, he has forfeited his deposit and I have therefore kept this money. Can you please confirm the capital gains consequences of this?

A. If a disposal is made under an unconditional contract, the date of disposal is the date the contract is made. It is not the later date when the asset is conveyed or transferred to the purchaser. For land and property in England and Wales therefore, this is usually the date of exchange of contracts as opposed to the completion date. However, where the disposal (completion) does not in fact occur following the sale agreement, then no disposal in fact takes place for capital gains purposes. The forfeited deposit you kept will be treated as a capital sum received under an Option which is subsequently abandoned, which means it is treated as a one-off receipt in the year.

May key tax dates

top

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

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

31 - Deadline for copies of P60 to be issued to employees for 2016/17

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.
