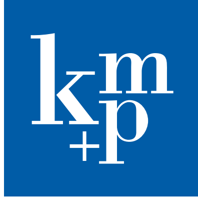

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NEWSLETTER
AUTUMN 2019

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INTRODUCTION

To say that the UK is moving into uncharted territory would be an understatement. Constitutionally, and economically, the resolution of the exit process from the EU is approaching resolution, one way or the other.

The effects on the UK business community, which we in part serve, is likely to be challenging.

There has never been a time where the unknowns, the consequences of our political ambitions, are so unclear.

Consequently, we must all shape up and be prepared.

We will be working closely with clients to ensure that they achieve the level of business fitness that will support them over the coming months. This newsletter is part of this process. Please read and if you need any further information on any of the topics raised, please call us.

BUSINESS

Every little helps

You can claim up to £1,000 each tax year in tax-free allowances for property or trading income. If you have both types of income, you will get a £1,000 allowance for each income source.

If your annual gross property income is £1,000 or less, from one or more property businesses, you will not have to tell HMRC or declare this on a tax return.

If your annual gross trading income is £1,000 or less, from one or more trades, you may not have to tell HMRC. However, there are circumstances when you must register for self assessment and declare your income on a tax return.

If your annual gross trading or property income from one or more trades or businesses is more than £1,000, you can use the tax-free allowances instead of deducting any expenses or other

allowances.

If you use the allowances you can deduct up to £1,000, but not more than the amount of your income. This is known as 'partial relief' which means you cannot use the allowance to create a loss for tax purposes.

If your expenses are more than your income, it will probably be more beneficial to claim expenses instead of the allowances.

Gross income means the total amount you would put on your tax return before any allowances or expenses are taken off.

Trading allowance

The trading allowance is a tax exemption of up to £1,000 a year for individuals with a trading income from:

- self-employment,
- casual services, e.g. babysitting or gardening,
- hiring personal equipment, for example, power tools.

This allowance does not apply to the trading income from a partnership.

Property allowance

The property allowance is a tax exemption of up to £1,000 a year for individuals with an income from land or property.

If you own a property jointly with others, you are each eligible for the £1,000 allowance against your share of the gross rental income.

If your annual gross property income is £1,000 or less, you will not need to tell HMRC, unless you cannot use the allowances. When it is higher, you will need to declare your property income.

You must tell HMRC if you have:

- gross property income over £1,000 up to £2,500 or
- property income over £2,500.

You cannot use this allowance on income from letting a room in your own home under the Rent a Room Scheme.

Higher rate tax relief is eliminated

Landlords have been grappling with, and suffering from, the tax relief restriction that started in 2017-18 that have gradually withdrawn higher rate tax relief for financing costs - basically, mortgage and loan interest.

Little by little, the amount of finance charges has been disallowed as an expense of your property business and replaced with a basic rate, 20%, tax credit.

This process of attrition completes in the current tax year, 2019-20. From 6 April 2020, all of your finance charges will be disallowed as an expense and replaced by a basic rate tax credit.

Before this process started, a landlord with property income of £100,000 and finance charges of £100,000 would not have paid tax. In the tax year 2020-21, the £100,000 will need to be declared as property income, creating a possible £40,000 higher rate Income Tax liability (depending on other sources of income). From this £40,000 liability the landlord can claim a basic rate tax credit of £20,000, which means the cash generated from their property business has been reduced by £20,000 a year.

Remedies are available to counter this loss of tax relief and new or existing landlords should contact us to discuss their options.

VAT & DUTIES

VAT changes for CIS sub-contractors delayed

Due to lobbying by construction industry associations, the imminent introduction of far reaching changes to the way that VAT is charged and accounted for between contractors and sub-contractors, has been delayed for one year to 1 October 2020. This extension of the deadline is welcomed as there were genuine fears that many affected contractors and sub-contractors were unprepared. The previous 1 October 2019 deadline also coincided with the current EU exit deadline later next month.

Accordingly, construction firms and sub-contractors that are VAT registered and subject to the CIS regulations, will now have one year to make the relevant changes to their accounting and admin systems.

If you are subject to the CIS, and if you are registered for VAT, from the 1 October 2020, you may need to change the way you account for VAT on supplies between sub-contractors and your contractor customers.

At present, sub-contractors registered for VAT are required to charge VAT on their supplies of building services to contractors. From 1 October 2020, this approach is changing.

From this date, sub-contractors will not add VAT to their supplies to most building customers, instead, contractors will be obliged to pay the deemed output VAT on behalf of their registered

sub-contractor suppliers.

This does not mean that contractors, in most cases, are paying their sub-contractors' VAT as an additional cost.

When contractors pay their sub-contractors' VAT to HMRC they can claim back an equivalent amount as VAT input tax; subject to the usual VAT rules. Accordingly, the two amounts off-set each other.

The change is described as the Domestic Reverse Charge (DRC) for the construction industry. It has been introduced as an increasing number of sub-contractors registered for VAT, collected the VAT from their customers, and then disappeared without paying the VAT collected to HMRC.

Beware cash flow concerns

However, the change to DRC may create cash flow issues especially if you use the VAT Cash Accounting Scheme or the Flat Rate Scheme.

We recommend that all affected CIS readers contact us, during the next year, so we can help you make the necessary changes to your invoicing and accounting software and reconsider the use of VAT special schemes, if your continued use would adversely affect your cash flow.

Have you already changed your VAT invoicing?

If you have already made the changes to your invoicing on the assumption that the reverse charge process will apply from 1 October 2019, you will need to change them back as the present system (without the domestic reverse charge changes) will apply until 1 October 2020.

If you have also changed your VAT filing stagger to monthly returns - on the basis that you were about to become a net repayment trader - you may be advised to reverse this process.

HMRC has acknowledged that some businesses that have already changed their invoices to meet the needs of the reverse charge cannot easily change them back in time. Where genuine errors have occurred, HMRC will consider the fact that the implementation date has changed.

Why you may need an EORI number

As the Brexit saga approaches its next deadline, 31 October 2019, firms that trade directly with EU companies will need to dust-off their EORI number. EORI is the acronym for an Economic Operator Registration & Identification number.

If you do not have an EORI number you need to ensure you get one ASAP.

HMRC has been warning businesses for some time on the importance of getting this number but many businesses have not heeded the warning. To combat this, HMRC is automatically allocating EORI numbers to some 88,000 businesses across the UK. If you have not yet applied for an EORI number, you should look out for a letter from HMRC allocating you one or apply online.

Without an agreed withdrawal with the EU, you will need an EORI number that starts with GB to move goods in or out of the UK. Additionally, if you want to trade with an EU country you will also need an EU EORI number. You should apply for one from the customs authorities in the EU country you will trade with.

Apparently, you do not need an EORI number if you are only moving goods between Northern Ireland and Ireland.

If you do not have this number, you may be faced with increased costs and delays. For example, if HMRC cannot clear your goods you may have to pay for storage fees. Clearly, these delays could have serious repercussions if your exported goods are mired in red-tape at border crossings. Your EU customers may look elsewhere for supplies or your production and delivery in the UK may

be affected if you cannot affect delivery of supplies from the EU.

There is no obligation to use the number when by some miracle we agree withdrawal terms with the EU before 31 October.

Importing if a no-deal Brexit applies

Firms who currently import from countries outside the EU will be aware of the issues they will face if the UK leaves the EU with a no-deal.

For businesses that are contemplating imports from the EU for the first time, the advice from HMRC (based on a no-deal outcome) is reproduced below.

Importing from non-EU countries

If the UK leaves the EU without a deal, you will need to follow these rules for importing goods from anywhere outside the UK.

When importing goods from non-EU countries, you will need to:

- find out the commodity code to classify your goods for tax and regulations,
- register for an EORI number if you do not have one - it usually takes 3 working days,
- declare your imports to customs - most businesses use a courier or freight forwarder to do this for them and
- pay VAT and duty.

You may also need an import licence for restricted goods like firearms.

Import declarations to customs

Most businesses use a courier or freight forwarder to make customs declarations for them. It's possible to make your own customs declarations, but the process is more complicated and only suitable for more experienced importers.

If your goods go through another EU country before coming to the UK, your supplier or the business responsible for transport must make an Entry Summary Declaration in the country. Check that this is done because the receiving business can be responsible for it.

Paying duty on imports from non-EU countries

You normally have to pay duty on goods imported from non-EU countries when they are first brought into the EU. The amount of duty you pay depends on how the goods are classified under the UK Trade Tariff and how they will be used.

You may be able to apply for reduced or zero rate duty for goods from certain countries as long as you can prove their origin. This is known as 'preference'.

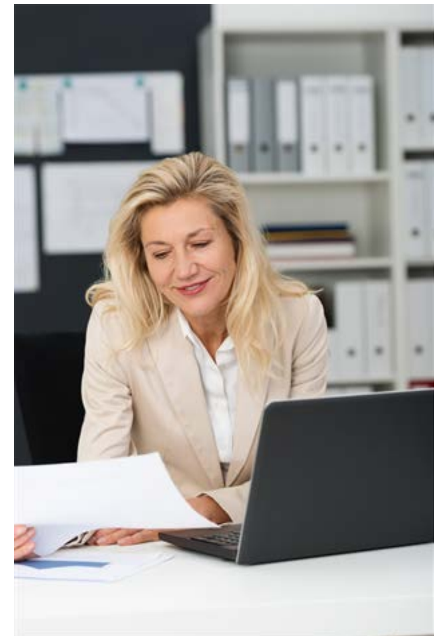
Your goods will not be released by customs until you have paid all duty and UK VAT.

You might be able to claim duty charges and VAT back or delay payments for some imports from outside the EU, for example if you are temporarily importing goods with the intention of moving them to another EU country.

Customs warehousing

It is possible to import goods from non-EU countries without paying duty or VAT as long as they stay in a customs warehouse. These warehouses are places where duty is suspended.

For example, you could import goods from the USA, store them in a customs warehouse in the UK and move them into a customs warehouse in Spain without paying duty.



EMPLOYMENT & PAYROLL

Not-so trivial benefits

Most employers and small company directors will be aware that it is possible to provide your employees - including directors - small benefits amounting to no more than £50. These so-called 'trivial benefits' will be exempt from any tax and NIC deductions.

However, there are conditions that must be observed apart from the obvious fact that each benefit must be no more than £50.

HMRC have recently published a reminder of these conditions. All of the following conditions must apply before the benefit qualifies under the exemption:

- the cost of the benefit in kind must not be over £50,
- the benefit in kind must not be cash nor a voucher redeemable for cash,
- it must not be given as part of salary sacrifice arrangements nor any other contractual obligations, and
- it must not be provided in recognition for work performed.

Also, there is a £300 limit on the cost of

all benefits provided in a tax year to directors, but only if the employer is a close company (generally, a small unlisted company).

The main reason the 'trivial benefits' exemption was introduced, was to remove the administrative burden for employers in reporting these small amounts. In order to apply the exemption correctly, it will help to understand the benefit being provided to your employees and to ask yourself some basic questions, such as:

- What is the cost of providing the benefit? Is it really below £50 per employee?
- If a benefit is provided to a group of employees, and it is impracticable to work out the exact cost per person, what is the average cost per employee?
- Is there a contractual obligation to provide the benefit? A good test is whether your employee would have legal grounds to object if you did not provide it.
- Are you certain the benefit is not related to how the employee has performed in the course of their duties? This can include providing a benefit where an employee has agreed to work on a specific project or piece of work.

HMRC is keen that the above points are considered and that we think carefully about the benefit and the reasons for giving them.

NIC & PENSIONS

Tax and the pensions' lifetime allowance

You will usually pay tax if your pension pots are worth more than the lifetime allowance. This is currently £1,055,000. You might be able to protect your pension pot from reductions to the lifetime allowance.

If you are in more than one pension scheme, you must add up what you have used in all pension schemes you belong to. You will get a statement from your pension provider telling you how much tax you owe if you go above your lifetime allowance. Your pension provider will deduct the tax before you receive your pension.

You will need to report the tax deducted by filling in a self assessment tax return - download and fill in form SA101 if you are using paper forms. You will get information from your pension provider to help you do this.

The rate of tax you pay on pension savings above your lifetime allowance depends on how the money is paid to you - the rates are:

- 55% if you get it as a lump sum,
- 25% if you get it any other way, for example pension payments or cash withdrawals.

Contact your pension provider to find out how much of your lifetime allowance you have already used.

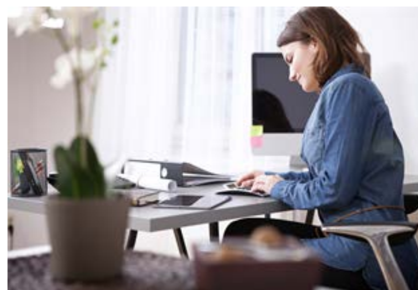
Deferring payment of NICs

Employees with more than one job may be able to defer (delay) paying Class 1 National Insurance Contributions.

You can do this if any of the following apply:

- you pay Class 1 NIC with more than one employer,
- you earn £962 or more per week from one job over the tax year,
- you earn £1,128 or more per week from 2 jobs over the tax year.

You will usually pay a reduced rate of 2% on your weekly earnings between £166 and £962 in one of your jobs (instead of the standard rate of 12%).



PERSONAL

Selling your home?

If you rent out all, or part of your home, this may create a Capital Gains Tax (CGT) charge when you sell the property.

Presently, HMRC excludes the last 18 months of your ownership - even if the property is let for this time - when assessing any CGT liability. In a draft of the Finance Bill released recently, HMRC has confirmed that this 18 month period will be reduced to 9 months from April 2020.

The exemption for disabled property owners or those in a care home will continue to be 36 months.

The draft Finance Bill also confirms a change to the letting relief rules.

Letting relief is an extra deduction you can make from any CGT payable as a result of letting your home. You can claim the lowest of the following three amounts:

1. The same amount that you can claim as Private Residence Relief.
2. £40,000.
3. The same amount as the chargeable gain you made from letting your home.

From April 2020, you will only be able to claim this letting relief if you are in shared occupancy with the tenant.

Property owners contemplating the disposal of their home - which is or has been let for any period - may be advised to complete their sale before April 2020. In this way they will benefit from the 18 month exemption and the more flexible lettings relief.

You do not pay Income Tax on these items

You should not pay Income Tax on the following sources of income. Any figures mentioned are for the tax year 2019-20.

- the first £1,000 of income from

self-employment - this is your 'trading allowance',
- the first £1,000 of income from property you rent (unless you are using the Rent a Room Scheme),
- income from tax-exempt accounts, such as Individual Savings Accounts (ISAs) and National Savings Certificates,
- dividends from company shares under your dividends allowance (currently £2,000 pa),
- some state benefits, please note your State Pension is taxable,
- premium bond or National Lottery wins,
- gambling winnings,
- rent you get from a lodger in your house that is below the Rent a Room limit (currently £7,500 pa).

Thirty days to pay CGT on property disposals

From April 2020, sales of residential property that attract a Capital Gains Tax (CGT) charge will need to be reported to HMRC within 30 days of the relevant disposal. Any CGT payable, as a result of the disposal, will need to be paid within the same 30 day window.

The relevant legislation is summarised below.

The general rule will be that a return in respect of the disposal must be delivered to HMRC within a 'payment window' of 30 days following the completion of the disposal, and a payment on account made at the same time. The self assessed calculation of the amount payable on account takes into consideration unused losses and the person's annual exempt amount. The rate of tax for individuals is determined after making a reasonable estimate of the amount of taxable income for the year.

Gains on disposals reported on the new return can be ignored when determining whether to register for self assessment. Enquiries into the return will be able to be made separately from any self assessment return that may be due.

For disposals by UK residents, the new reporting and payment requirements will

not apply where the gain on the disposal (or the total gain where more than one residential property disposal is made in the year of assessment) is not chargeable to CGT (for example where the gains are covered by private residence relief, unused losses or the annual exempt amount). In addition, the new requirements will not apply to the disposal of a foreign residential property in a country covered by a CGT double taxation agreement or to a person taxed on the remittance basis.

For non-residents, the reporting requirement has been expanded since 6 April 2019, to include all companies. However, an exception from making a payment on account, for those that make self assessment returns, will cease for disposals on or after 6 April 2020, in line with the introduction of payment on account for UK residents.

This is a significant change. These new regulations introduce the need to make an additional self assessment tax return each time a chargeable event occurs. The payment window is also drastically reduced.

Property owners who are contemplating the disposal of a residential property after March 2020, would be advised to consider their options: for example, could they bring forward their sale (prior to April 2020) to simplify reporting and give them much more time to pay any tax due?

Please call us if you need further information about this change and help with the computation and reporting of associated capital gains.

Take a look at the Lifetime ISA

If you are saving for a deposit on your first home or if you want to accumulate savings to top up your later-life needs, you might like to take a look at the Lifetime ISA.

Here are a few facts you will need to consider:

- You must be 18 or over but under 40 to open a Lifetime ISA.
- The Lifetime ISA limit of £4,000 counts towards your annual ISA limit which is £20,000 for the 2019-20 tax year.
- You can hold cash or stocks and shares in your Lifetime ISA or have a combination of both.
- When you turn 50, you will not be able to pay into your Lifetime ISA or earn the 25% bonus but your account will stay open and your savings will still earn interest or investment returns.
- To open and continue to pay into a Lifetime ISA you must be a resident in the UK, unless you are a crown servant (for example, in the diplomatic service), their spouse or civil partner.

You can withdraw money from your ISA when you are:

- buying your first home,
- aged 60 or over, or
- terminally ill, with less than 12 months to live.

You would pay a 25% charge when you withdraw cash or assets for any other reason.

The withdrawal charge aims to recover the government bonus received, and applies an extra charge to the original savings. This means, if you treat your Lifetime ISA as a short-term savings product, you could get back less than you paid in.

FINANCIAL CALENDAR

October 2019

5 Deadline to notify HMRC of chargeability to Income Tax or CGT for 2018/19.

14 Due date for CT61 return and CT payment for quarter to 30 September 2019.

31 Deadline to submit 2018/19 Self Assessment tax return if filed on paper.

November 2019

2 Submit employer forms P46 (car) for quarter to 5 October 2019.

December 2019

30 Last day to submit 2018/19 tax return online to have unpaid tax of up to £17,000 collected through the 2020/21 PAYE code. The amount of debt that can be coded out in a year ranges from £3,000 to £17,000 based on a graduated scale.

January 2020

14 Due date for CT61 return and CT payment for quarter to 31 December 2019.

31 Submit 2018/19 Self Assessment return online. Pay balance of 2018/19 Income Tax and CGT plus first payment on account for 2019/20.

February 2020

2 Submit employer forms P46 (car) for quarter to 5 January 2020.

March 2020

31 Last minute planning for 2019/20 tax year. Make sure to use any CGT and IHT annual allowances and exemptions.

April 2020

5 Last day of tax year (6 April 2020, first day of new tax year).

14 Due date for CT61 return and CT payment for quarter to 31 March 2020.

May 2020

3 Submit employer forms P46 (car) for quarter to 5 April 2020.

31 Last day to issue 2019/20 P60s to employees.

July 2020

5 Final date to agree 2019/20 PAYE Settlement Agreements (PSA).

6 Last date for returns of expenses and benefits (forms P11D, P9D and P11D(b)) for 2019/20 to reach HMRC. Relevant employees to receive copies of forms P11D and P9D.

6 Last date to submit annual returns for employee share schemes and employment-related securities for 2019/20 (forms 34, 35, 39, 40 and 42).

14 Due date for CT61 return and CT payment for quarter to 30 June 2020.

22 Class 1A NICs for 2019/20 due (19th if paid by cheque).

31 Due date for second payment on account of 2019/20 Income Tax and Class 4 NICs.

31 Last day to pay 2018/19 tax to avoid second automatic 5% surcharge (unless late payment agreed with HMRC).

August 2020

2 Submit employer forms P46 (car) for quarter to 5 July 2020

Every month:

1 Annual Corporation Tax due for companies with a year ending nine months and a day earlier, e.g. tax due 1 January 2020 for year ending 31 March 2019.

14 Quarterly instalment of Corporation Tax due for large companies (depending on accounting year-end).

19 Pay PAYE/NIC and CIS deductions for period ending 5th of the month if not paying electronically. Submit CIS contractors' monthly return.

22 PAYE/NIC and CIS deductions paid electronically should have cleared into HMRC bank account.

30/31 Submit CT600 for a year ending 12 months earlier. Last day to amend CT600 for a year ending 24 months earlier.

If the due date for payment falls on a weekend or Bank Holiday, payment must be made by the previous working day. Electronic payments sent using the Faster Payments Service (FPS) are able to clear into HMRC's account on a non-banking day – a Saturday, Sunday and most Bank Holidays.

File accounts with Companies House for private companies with a year ending nine months earlier and for public companies with a year ending six months earlier.

In preparing and maintaining this newsletter, every effort has been made to ensure the content is up to date and accurate. However, law and regulations change continually and unintentional errors can occur and the information may be neither up to date nor accurate. The editor makes no representation or warranty (including liability towards third parties), express or implied, as to the accuracy, reliability or completeness of the information published in this newsletter.

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