SMITH COOPER

Tax Update
Autumn 2019

What's inside

OUR 2019 AUTUMN TAX SUMMARY FOCUSES ON RECENT OR UPCOMING TAX MEASURES WHICH MAY AFFECT YOU, YOUR FAMILY AND YOUR BUSINESS

Personal Tax

CAPITAL TAXES

Capital Gains Tax (CGT)

- CGT Returns for Residential Properties – for UK residents, there is a requirement from 6 April 2020 to submit and make a full payment on account of CGT within 30 days following the disposal of a residential property.
- Non-UK residents' CGT Returns for Residential (already in place since 6 April 2015) and Commercial Properties (from 6 April 2019)- for non-UK residents, there is a requirement to submit and pay within 30 days following the disposal of a residential property.
- Non-UK resident individuals, trustees and companies are liable to CGT on the disposal of holdings in companies which derive 75% or more of their value from UK property from April 2019.

Private Residence Relief (PPR)

- Effective abolition of lettings relief for most taxpayers – the relief now only applies to shared occupation with tenants.
- From April 2020, final period exemption for PPR will be reduced from 18 months to 9 months.
- From April 2020, the mortgage interest restriction rules for rental income from residential property will be in full effect, such that there will be no deduction from profits for mortgage interest and only the basic rate tax reducer will be available.

Entrepreneurs Relief (ER)

- The minimum holding period for the ownership test and the employee/Director test must be met for ER increased from 12 months to 24 months from April 2019.

Shareholding Conditions are now as follows:

A holding of at least 5% of the ordinary shares capital measured by nominal value; a beneficial entitlement to 5% voting rights by reason of those shares; and a beneficial entitlement to either: 5% of assets on winding up and entitlement to 5% distributable profits, or in the event of a disposal of the whole of the ordinary share capital of the company, beneficial entitlement to at least 5% of the proceeds.

Pensions

- Lifetime allowance for pensions increased from £1,030,000 to £1,055,000 from April 2019.
- The pension annual allowance (including employer contributions) remains at £40,000, but since April 2016 this is potentially tapered to £10,000 where adjusted income exceeds £150,000.

OTHER CHANGES

- HMRC have issued refunds to taxpayers where they have been issued penalties for failure to include the High-Income Child Benefit Charge on self-assessment tax returns.

Many taxpayers continue to be unaware of this charge, which affects individuals with taxable income in excess of £50,000 who are in receipt of child benefit, or have a partner, spouse or civil partner who receives child benefit.

Corporate Tax

ALLOWANCES

Annual Investment Allowance

- The Annual Investment Allowance has temporarily increased to £1 million for the period from 1 January 2019 to 31 December 2020.

Structures and Building Allowance

- Structures and Buildings Allowance Relief is provided on eligible construction cost sat an annual rate of 2% where the costs for construction of the relevant structure or building was incurred on or after 29 October 2018.

Capital Allowance

- From April 2019, the special rate pool writing down allowance decreased from 8% to 6%.

CORPORATE TAX

Corporate Tax

- The Corporate Tax Rate is set to remain at 19% under the current government.
- There is now a Corporation Tax relief on goodwill acquired or created after 1 April 2019.
- Non-UK resident companies are now liable to Corporation Tax on the sale of UK based property, with effect from April 2019.

OTHER CHANGES

- Changes to Capital Allowances in car leasing has seen CO_2 limits decrease from 130g/km to 110g/km.
- Losses arising from 1 April 2017 now have increased flexibility and can be set against the total taxable profits of a company and its group members.
- From April 2019, the small trading exemption available to charities has increased from £50k to £80k, subject to annual income.

Employment Tax

National Minimum Wage

NMW/NLW are likely to increase as of April 2020. At present HMRC have not released any official increases from the current rates.

Auto Enrolment for Pensions

HMRC have not released any official increases to the current auto enrolment pension contributions for both employees and employers. Contributions are currently 3% for employers and 5% for employees.

Employment Allowance

As announced in the October 2018 budget, Employment Allowance will be restricted to small employers as of April 2020. Employment Allowance of up to £3,000 will only be available to employers who have a Class 1 NIC liability of £100,000 or below in the previous tax year. This therefore means that medium and large business will no longer be able to claim the allowance.

Changes to some company car benefits from April 2020

Some company car benefit in kind calculations are changing as of the tax year April 2020/21. Any zero-rated emission cars that are first registered from 6 April 2020 or later will be 0% rated, from 2020/21, 1% rated as of April 2021 for the tax year 2021/22 and will be 2% rated as of April 2022 for the tax year 2022/23.

There will be a 2% reduction in the 2020/21 benefit in kind calculation for cars registered on or after 6 April 2020, as the emissions will be referenced to the new WLTP testing. The reduction for 2021/22 will be 1%. For two tax years there will be effectively two benefit in kind calculations in place, for cars registered before 6 April 2020 and one for cars registered on or after 6 April 2020.

Personal Allowance

HMRC have not released any official increase to the personal allowance which currently remains at £12,500 for 2020/21. There have been no announcements with regards to the basic rate tax which is currently £37,500 and the higher rate tax threshold which is currently £50,000.

Short Term Business Visitors (STBV)

As of April 2020, STBVs from overseas branches of a UK based company will now have time limit for the PAYE special arrangement increased from 30 days to 60 days, and the deadline for reporting has been extended to 31 May from 19 April.

Termination Payments

From 6 April 2020, non-contractual termination payments in excess of £30,000 will be subject to PAYE tax and employers Class 1A NIC (13.8%). Previously only PAYE tax was due on non-contractual payments in excess of £30,000.

IR35 Intermediary Off Payroll working in the private sector

On 6 April 2020, the Intermediary Off-Payroll working rules will come into effect for the private sector. The obligation of considering whether the new IR35 intermediary rules apply, will now fall on the end user (the engager). Engagers/end users should carry out a review on their off-payroll workers to establish whether they are affected by the new rules.

Where a worker is deemed to be caught by the incoming IR35 intermediary rules the, engager must advise the PSC, or the agency providing the worker, and the worker of the decision, and the entity that makes the payment to the worker/PSC must deduct PAYE tax and Class 1 employees NIC from invoices received and pay employers Class 1 NIC.

There is an exemption for small employers engaging off payroll workers. A small employer has been defined as per Companies Act 2006 as follows:

- Turnover annually of £10.2 Million or below;
- Assets on the balance sheet that total £5.1m or below;
- Number of employees are 50 or lower

VAT

Making Tax Digital ('MTD')

Following the launch of Making Tax Digital in April 2019, it is now time for business under the MTD deferral to begin the process of signing their business up to Making Tax Digital with the first VAT return due 7 December 2019 for monthly returns and 7 February 2020 for quarterly returns.

Brexit

Uncertainty continues. For those involved in the intra EU supplies of goods and services there should be limited changes in relation to VAT. However, customs duties may well be a concern as these are likely to be a cost for importers of goods unless there are reliefs made available.

VAT and Customs inspections

Although many staff have been diverted to deal with MTD and Brexit there are increasing targeted inspections. Currently, those being looked at are cash businesses (restaurants, pubs, takeaways etc), the construction industry and not surprisingly those involved in cross border trade.

Increased VAT Penalties

If you do receive an inspection and VAT is found to be due, to HMRC you are likely to receive a penalty. For basis errors this will range from 0-30% of the VAT due, but for more serious errors deemed 'deliberate' this could be up to 70%.
Talk to your accountant if you do receive a penalty as they should be mitigated if handled correctly.

'Reverse' bad debt relief

Generally businesses are aware that they can recover VAT as a bad debt provided certain conditions are satisfied among them the fact that VAT can be recovered on a debt which is 6 months old.

However, where a business has not paid its suppliers for over 6 months , it must repay to HMRC the VAT already recovered. HMRC are gathering this information when visiting businesses and then following up to check if the other side of the transaction is being treated correctly. They are getting a good deal of success with this.

Business entertainment

This is another area which HMRC are revisiting having undertaken a campaign a whole back. They are looking at hospitality boxes and seating at sporting and entertainment venues to see which businesses have bought hospitality packages, seats etc. They are then contacting businesses to see if they have recovered the VAT and if they have they get a bill! Hospitality of any kind is regarded as business entertainment and the VAT is not recoverable.

Time to pay

Although HMRC advertise that businesses should talk to them if they are having difficulty paying VAT, they are making agreeing payment terms increasingly difficult. The Business Payment Support Service is still the first port of call but do not expect them to agree anything too readily.

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