

TAX NEWSLETTER OCTOBER 2015



Welcome to this month's Enews in which we take a closer look at the new 5p carrier bag charge and how the VW emission scandal might affect company car owners.

Please contact us if you would like further help or advice.

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5P CARRIER BAG CHARGE COMES INTO FORCE

Carrier bag charges will begin in England on 5 October 2015. For a large retailer the minimum charge is 5p for single-use plastic carrier bags. For small or medium-sized businesses no charge is required but can be made on a voluntary basis.

A business that employs 250 or more full-time equivalent employees, in all roles not just in retail roles, will be treated as being large and must charge the 5p. The number of employees is calculated at the start of each reporting year. The first reporting year will start on 5 October and run to 6 April 2016. Subsequent reporting years will start on 7 April.

When calculating full-time equivalent employees a business that is operated under a franchise needs to only include employees in that business, not the whole franchise.

The type of bags that will carry the charge will be:

- unused
- plastic
- with handles and
- 70 microns thick or less.

Where deliveries or online sales are made to customers any plastic bags used will also have to be included in the total cost. It may be that the amount of bags to be used is unknown when the order is placed. In this situation an average number of bags can be used in the charge as long as 5p or more is charged per bag overall.

There are a number of specific exemptions on the types of bags which would not be subject to the charge. These include bags for:

- uncooked fish and fish products
- uncooked meat, poultry and their products
- prescription medicine
- free promotional material given away.

However, if you mix these with even just one non-exempt item, the charge will apply.

Retailers will need to maintain reporting records and also make a report to Defra on or before 31 May following the end of the reporting year. The first report should therefore be sent to Defra by 31 May 2016.

The details to be sent to Defra are as follows:

- number of bags distributed
- the amount of money received from selling the bags
- any VAT paid from the money received from selling bags
- what the business did with the proceeds from the charge
- any reasonable costs (see below) and how they break down.

Reasonable costs include costs to comply with the legislation and do not include the costs of the bags. Examples would be:

- costs of changing till systems
- training staff
- communicating the policy to staff.

Once reasonable costs have been deducted, the remaining proceeds should all be donated to good causes.

The local authority, where the shop is based, is authorised to make inspections to ensure the law is being followed. Where there is non-compliance, they will have the authority to issue a notice to the retailer to correct the non-compliance or issue a fixed fine of up to £200 or a variable penalty of up to £20,000. In addition the local authority can order the retailer to advertise that they have broken the law.

Internet link: [GOV.UK Guidance](#)

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VW GROUP EMISSIONS SCANDAL – IMPACT ON COMPANY CARS

As recent findings have revealed that the car emissions scandal extends beyond VW, Audi, Skoda and Seat, to Mercedes, BMW, Mazda, Fiat, Ford and Peugeot, there is a good chance that your company car could be one of the affected/recalled vehicles.

Manufacturers have used software to “cheat” the EU emissions test. As a result of the scandal, the UK government has commissioned an investigation to include laboratory and real world testing of the affected vehicles’ CO2 emissions.

How does this affect me?

Employees with company cars are taxed on a percentage of the car’s list price, which is based on the car’s CO2 emissions: The lower the CO2 emissions, the lower the assessable BIK and resulting tax charge on the employee is, and the lower the national insurance charge on the employer.

If the government were to increase the official CO2 emissions based upon their findings, this could potentially have a devastating impact on the taxation of company car BIK tax charges.

However, we understand that HMRC have already confirmed that not only will it not seek to reclassify these cars for vehicle excise duty (VED) purposes, but that the reclassification will also not apply to BIK calculations, with the emissions factor used remaining to be the one on the vehicle’s original approval certificate.

Whilst this might provide a level of comfort, employers will surely have to look more carefully than ever before at emissions before providing cars to employees, or possibly consider not providing them at all, to minimise their risk.

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POSSIBLE IHT SAVINGS ON THE FAMILY HOME

As property prices continue to rise, inheritance tax (IHT) has become more of an issue with families where often the only asset of any value is the family home.

To help address this, it was announced in Summer Budget 2015 that a new ‘Residence Nil-Rate Band’ (RNRB) will be phased in from 6 April 2017, where a family home is passed to a direct descendant on death. The RNRB in the 2017/18 tax year will be £100,000, increasing by £25,000 each tax year until year ended 5 April 2021, when it will reach £175,000.

This means that, combined with the general nil-rate band of £325,000 per person, a married couple might be able to pass their family home, with a value of up to £1,000,000, to their children, free of IHT. (£325,000 plus £175,000 each).

In addition, to avoid penalising homeowners for downsizing or ceasing to own their own home, there are also proposals to preserve the RNRB where it might have otherwise been lost.

Legislation is to be included in the 2016 Finance Bill and so the detail is not yet known. We do however understand that the RNRB will be tapered away where the estate has a value of more than £2,000,000, although it is not clear if this applies to the couple or on an individual basis.

Whilst relief is expected to be preserved for those downsizing, there is also likely to be anti avoidance measures put in place to prevent taxpayers ‘upsizing’ their homes simply with a view to reduce IHT costs.

For those still looking to reduce their estate for IHT purposes, the basic reliefs should never be overlooked ahead of more advance tax planning and a reminder of these are:

- Making gifts of up to £3,000 each tax year. This is known as the annual exemption and any unused amount may be carried forward for one tax year. The maximum exemption in a year is therefore £6,000.
- Making regular gifts from income, provided the donor’s quality of life is maintained.
- Gifts on the occasion of marriage below certain limits (£5,000 to a child, £2,500 to a grandchild or great grandchild, £1,000 to anyone else).

- Gifts below £250 to any number of people in any one tax year.
- Gifts to charities and political parties.
- Gifts above the annual exemption, provided the donor survives 7 years from making the gift.

If you would like to discuss how IHT may impact on your estate, please do get in touch.

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TAX CREDIT CUTS WILL AFFECT THOUSANDS OF UK FAMILIES

Several changes to tax credits were announced by the Chancellor in the Summer Budget which will have a huge impact on the amount of tax credits available to families in the UK.

From April 2016 the following changes will come into effect:

- The income rise disregard will be reduced from £5,000 to £2,500. As tax credit claims are always based on the previous year's income, this is the tolerance that is allowed at the end of the tax year when the claim is finalised on actual income. Provided any change in the level of income is below the disregard limit, the claim is unaffected.
- The income threshold for working tax credit will be reduced from £6,420 to £3,850 per annum. This is the amount of income a claimant can have before working tax credits start to be tapered.
- The taper rate will reduce from 41% to 48%. This means that tax credits will be tapered by 48p for each £1 of income over the income threshold.

From April 2017 the following changes will come into effect:

- The family element of child tax credit (currently worth £545 per year) will no longer be awarded when a claimant's first child is born.
- The child element of child tax credit will no longer be available for the third and subsequent children born after April 2017. The child element for third and subsequent children is currently worth a maximum of £2,780 per child. This will not affect the payment of the amount for a disabled or severely disabled child and will not apply where there is a multiple birth.

Eventually tax credits will be replaced by Universal Credits which are being introduced to replace and merge several types of benefit and tax credit into one monthly payment. At the moment Universal Credits only affect newly unemployed people in specific areas of the country but they will gradually be phased in for the whole of the country and this is intended to be complete by October 2017.

Universal Credits will be complex and more information can be found at: [https://about.universalcredit.service.gov.uk/kms/Pages/Eligibility for Universal Credit.htm](https://about.universalcredit.service.gov.uk/kms/Pages/Eligibility%20for%20Universal%20Credit.htm)

Families will however still be entitled to claim Child Benefit, which is unaffected by the changes. This will be clawed back where at least one member of the family has income of £50,000 or more in any tax year.

Tax credits are undeniably a complex area and if you do need any advice then please do get in touch.

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VAT REGISTRATION – PLANNING AND PITFALLS

It is important to think about the VAT implications of a transaction or deal before it takes place, or before a new venture actually starts. Below we have addressed some key factors to consider, including the use of different legal entities to avoid liability to VAT.

VAT registered persons

There is no such thing as a VAT registered business, only a VAT registered person. Secondary sources of income from economic activities must therefore be taken into account in calculating turnover for the purposes of VAT registration requirements.

For example a sole trader whose current turnover is just below the VAT registration threshold (currently £82,000) may start to rent some space at their business premises for storage. From 1 October 2012 income from land-related storage supplies became standard rated for VAT purposes and therefore this income will push our sole trader over the registration threshold and he must therefore register and start charging VAT on both types of income.

The basic registration test is that the turnover needs to be reviewed on a rolling 12 month basis.

Jointly owned land

If land is owned by one or more person, this creates a partnership as far as VAT is concerned (this may not be the case for legal purposes or income tax purposes). Therefore if our sole trader mentioned above was to transfer the business premises into the names of him and his wife, this would form a different legal entity. There are now two separate businesses and each gets its own VAT registration threshold.

Different legal entities

As you can see, creating a different legal entity for one source of income can avoid the need for VAT registration.

In the example of our sole trader, he could have incorporated his sole trade to form a limited company which would have also got around the VAT registration issue. Another option would be to make his wife a partner in his sole trade business rather than making her a joint owner of the business premises.

Alternatively partnerships could have been formed for both the sole trade and the rental income, so long as the two activities have a different mix of partners. Perhaps a son or daughter could be brought in to one of the partnerships.

HMRC Directions

Be aware though that HMRC could possibly issue a direction to different legal entities to treat them as one business for VAT registration purposes. They have the power to do so where two businesses are closely connected by “financial, economic and organisation links”.

However, in our example of the sole trader, the linked businesses have very different activities, use different fixed assets and buying sources, have different circles of customers, and have different people involved in the various entities. Therefore HMRC is unlikely to make a direction here.

A direction is more likely to be issued where, for example, a plumber tries to split his business so that he has an unregistered entity for his domestic work (where customers cannot reclaim input tax on his charges) and a VAT-registered entity for his commercial projects (where customers can reclaim input tax).

If you need assistance with any aspect of VAT please contact Andy Branson at andy.branson@albertgoodman.co.uk

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AUTUMN STATEMENT DATE ANNOUNCED

The government has announced that the date of the Autumn Statement will be 25 November 2015.

The Chancellor of the Exchequer, George Osborne, has announced that there will be an Office for Budget Responsibility forecast alongside the Spending Review on Wednesday 25 November 2015. The government will therefore publish a joint Autumn Statement and Spending Review on this date.

We will keep you informed of key announcements.

Internet link: [GOV.UK News](#)

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MAKING TAX SIMPLER FOR CHARITIES

In September HMRC updated their detailed guidance notes which outline how the tax system operates for charities. The notes include how to apply to be recognised as a charity for tax and the operation of gift aid and payroll giving.

Over the last five years the government has brought in a range of changes to the tax system to make it simpler for charities to make the most of tax reliefs, so that more money can go to good causes.

Gift aid small donation scheme

Through the [gift aid small donations scheme](#) charities can claim a gift aid-style top-up on small donations eg a donation to a charity vendor in the street, up to a limit of £5,000 per year. This limit will increase to £8,000 per year from April 2016.

Charities online

Charities can submit claims for gift aid tax relief online which speeds up the claims process. 95% of charities now use this online system and the claims are processed within five working days.

HMRC outreach team

To date an HMRC outreach team has delivered face-to-face presentations to over 650 charities to spread awareness and help charities to successfully claim tax relief.

Community amateur sports clubs

The government has amended the law so that local sports clubs registered as community amateur sports clubs can receive corporate gift aid to help these clubs benefit their local communities.

Social investment tax relief

The social investment tax relief scheme has been created to encourage people to invest in social enterprises including charities. Individuals making an eligible investment will be able to deduct 30% of the cost of that investment from their income tax liability.

Lower IHT rate

If people leave at least 10% of the net value of their estate (its worth, minus any debt, other liabilities and reliefs) to charity, then 36% inheritance tax can be paid instead of 40%.

If you want further details on the tax treatment of charities please contact us.

Internet links: [GOV.UK news](#) | [GOV.UK guidance](#)

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GOVERNMENT TOUGHENS NATIONAL MINIMUM WAGE (NMW) SANCTIONS

The government has announced a package of measures including tougher National Minimum Wage (NMW) penalties to ensure employees receive the pay they are entitled to.

The measures include:

- doubling the penalties for non-payment of the [NMW](#) and the new [National Living Wage](#)
- increasing the enforcement budget
- setting up a new team in HMRC to take forward criminal prosecutions for those who deliberately do not comply
- ensuring that anyone found guilty will be considered for disqualification from being a company director for up to 15 years

Business Secretary Sajid Javid said:

'There is no excuse for employers flouting minimum wage rules and these announcements will ensure those who do try and cheat staff out of pay will feel the full force of the law.'

This one nation government is committed to making work pay and making sure hardworking people get the salary they are entitled to.'

The government has announced the introduction of a new team of HMRC compliance officers who will investigate the most serious cases of employers not paying the NMW and National Living Wage. The team will have the power to use all available sanctions, including penalties, prosecutions and naming and shaming the most exploitative employers.

Stiffer penalties

Employers who fail to pay employees the minimum wage will have to pay penalties which will be up to twice what they currently are. This reform is intended to increase compliance and make sure those who break the law face tough consequences.

The calculation of penalties on those who do not comply will rise from 100% of arrears to 200%. This will be halved if employers pay within 14 days. The overall maximum penalty of £20,000 per worker remains unchanged.

Other changes

In other related changes a new Director of Labour Market Enforcement and Exploitation will be created to oversee enforcement of the NMW, the Employment Agency Standards Inspectorate and the Gangmasters Licensing Authority. The Director will set priorities for enforcement based on a single view of the intelligence about exploitation and non-compliance.

A consultation will be launched in the autumn on the introduction of a new offence of aggravated breach of labour market legislation. The consultation will also propose giving the Gangmasters Licensing Authority additional investigatory powers and a wider remit to tackle serious labour exploitation more effectively.

The government has also announced they will improve the guidance and support made available to businesses on compliance. They will also work with payroll providers to be sure payroll software contains checks that staff are being paid what they are entitled to.

If you would like help with payroll or employment law please do get in touch.

Internet link: [GOV News](#)

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BUSINESS RATES APPEAL PROPOSALS ARE A 'BARRIER TO JUSTICE'

The Enterprise Bill is currently going through Parliament. Part of the Bill reforms the business rates appeals system. The government's changes have been criticised by rates experts and business groups, amid concerns that the changes will act as a 'barrier to justice'.

The Valuation Office Agency (VOA), which is part of HMRC, is responsible for compiling and maintaining non-domestic rating lists. Currently officers of the VOA are prevented from sharing the information they collect about properties and ratepayers with local government. This means that businesses have to provide the same information twice to the VOA and local government. It can also mean that the properties have to be inspected by both the VOA and the local authority.

The Bill therefore allows the VOA to disclose information to a 'qualifying person for a qualifying purpose' such as a local authority.

The changes have been criticised by some people. They say the legislation will act as a 'barrier to justice' for businesses seeking to appeal.

Transparency around how business rates or tax on commercial property is measured has long been called for by small businesses. Critics of the bill claim that it has failed to address this issue, as it permits the VOA to share rate measurement information with local authorities but not with individual businesses.

Jerry Schurder, former chairman of the Royal Institution of Chartered Surveyors said:

'In business rates, your own liability depends not on your own property but what's being paid by lots of other people and you have no right to obtain that information. In any other tax, the taxpayer has the relevant information to make an appeal but not on rates.'

Meanwhile John Allan, national chairman at the Federation of Small Businesses, commented:

'While we support moves to make it easier to navigate business rates appeals, we have concerns around the proposals in the Bill.

Their primary aim seems to be reducing the number of appeals by making the process more difficult, rather than by addressing the underlying issues, in particular making the appeals system and the VOA more transparent.

If increased transparency is not delivered, then confidence in the business rates system will continue to be undermined.'

Internet links: [Link to legislation](#) | [Telegraph](#)

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PAPER TAX RETURN DEADLINE

For those individuals who have previously submitted 'paper' self assessment tax returns the deadline for the 2014/15 return is 31 October 2015. Returns submitted after that date must be submitted electronically or they will incur a minimum penalty of £100. The penalty applies even when there is no tax to pay or the tax is paid on time.

If you would like any help with the completion of your return please do get in touch.

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