CHARTERED ACCOUNTANTS, TAX CONSULTANTS & FINANCIAL PLANNERS

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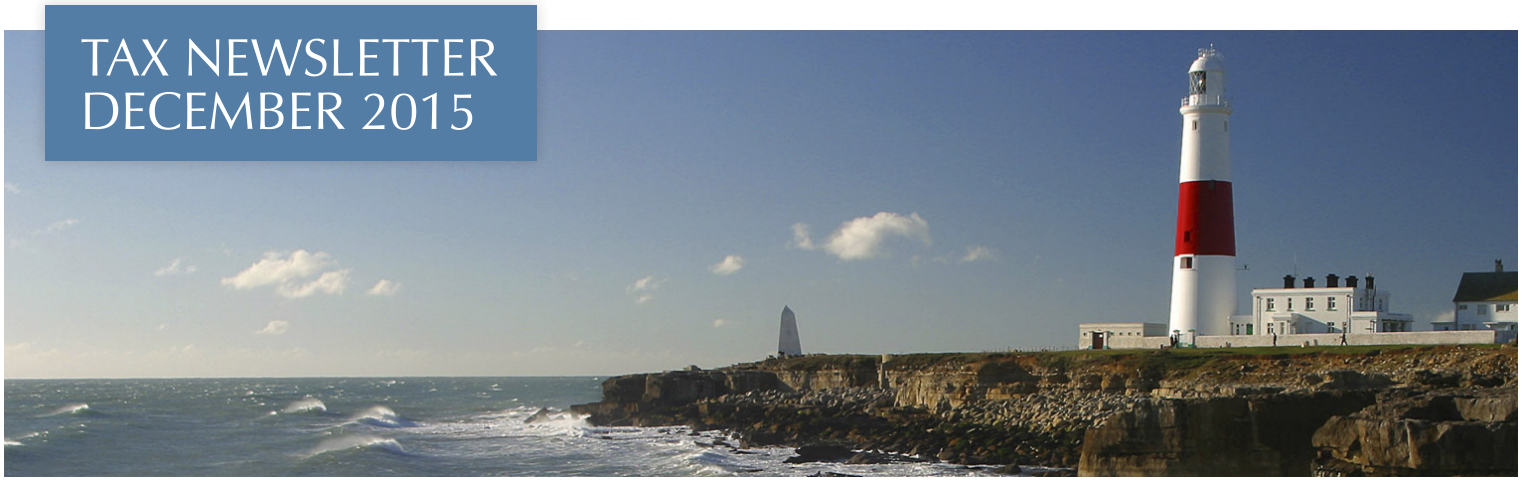

Welcome to this month's eNews in which we take a closer look at the proposals to introduce quarterly reporting for taxpayers from 2018, together with the bringing forward of tax payments to 'help ease the burden' of paying tax sometime after earning the profits.

We've also included a seasonal reminder on the tax treatment of gifts made to employees.

We wish you a very Happy Christmas and a Happy 2016.

Please do get in touch if you would like any further guidance on any of the areas covered.

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MAKING TAX DIGITAL - EASING THE BURDEN FOR TAXPAYERS?

In his Budget 2015, George Osborne announced the demise of the annual tax return and their replacement with online tax accounts by 2020, together with the 'opportunity' for taxpayers to pay their tax early, to help ease the apparent 'burden' that taxpayers feel about paying tax sometime after earning their income or profits.

HMRC have now issued a road map setting out how it will bring 'the digital revolution to Whitehall', with fundamental changes being proposed to the way the current tax system works:

- Taxpayers will not need to tell HMRC about information it already holds;
- The tax system will operate more in real time; and
- Taxpayers will have digital accounts.

This will apparently transform the experience of millions of taxpayers and is aimed at bringing tax payment dates forward, with taxpayers being able to make regular single tax payments.

Quarterly updates

It is intended that from 2018, businesses, including all self employed persons and landlords, will need to update HMRC at least quarterly on their main income sources, or on any secondary sources which total over £10,000.

Regular tax payments

HMRC argue that businesses and individuals struggle with the time lag between earning income and paying tax on it, not understanding what their liabilities are and when they are going to be due, making it difficult for them to budget cash flow.

The proposals will see taxpayers making more frequent in year tax payments and the government has already announced how property owners will change to paying tax on capital gains only 30 days after selling a property, rather than the current nine to twenty two months, depending on when the sale takes place, from April 2019.

Personal Tax Accounts

By 2016, every individual and 5 million small businesses are meant to have their own pre-populated online tax account with links to tailored advice from HMRC, although the road map shows pre-population will be delayed to the end of the year.

Having dealt with many enquiries over the years where HMRC's information is frankly wrong, I would urge all taxpayers to still check their accounts carefully and ensure that the advice is complete and properly applies to their specific circumstances. Even better, speak with a qualified tax adviser, as all taxpayers will remain responsible for ensuring their tax bills are correct.

Companies will be brought online from 2020 via their accounting software.

Conclusion

Whilst digitalisation appears to be inevitable given how our world operates now, it is perhaps more difficult to understand the 'burden' Mr Osborne refers to in not paying tax in real time.

Further, we are just heading into the busiest time of year in tax, dealing with self assessment returns for clients who have struggled to provide us with their information only once a year: how is having to provide this at least four times a year going to reduce their (or our) burden?

No commentary on penalties for late submission of more frequent information or the late payment of tax has been made on the proposed changes, but as we head towards April 2016 and the removal of the relaxation of Real Time Information (RTI) penalties for employers for PAYE purposes (relaxed because businesses simply struggled with the real time reporting!), surely this is something else we should be concerned over as the government receives a one off boost in to the coffers as the rule changes take place.

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CHRISTMAS GIFTS TO EMPLOYEES

It's that time of year again when employers may be thinking of giving their employees Christmas gifts, but potential tax and national insurance consequences may give rise to a nasty tax surprise being sprung on your unsuspecting staff!

Tax-free gifts

However, there is a way in which a gift can be given tax-free. Christmas gifts are quite often covered under the trivial benefits rules and so are exempted from tax.

But what is a trivial gift?

Unfortunately, the HMRC guidance on this is currently very vague. There is no set monetary limit or any set rules on this. However, HMRC are clear that the gift must not be a cash benefit, a benefit with money's worth or non-cash vouchers.

Here are some examples of gifts which would be covered under the trivial benefit rules:

- Bottle of wine
- Box of chocolates
- Christmas Turkey

Some employers may wish to give a more luxurious gift, such as a Christmas hamper, and this is where the vague rules make things difficult. You will need to make a judgement as to whether the gift would still be considered a trivial benefit, taking into account the cost and contents of the gift. If you would like further advice on this, then please get in touch.

The good news is that from April 2016, HMRC are introducing a statutory exemption for trivial benefits costing less than £50. So next Christmas, as long as you give your employees a gift costing less than £50, which meets the gift criteria, then no tax will be due.

Other gifts

But what are the consequences if you want to give a gift which is not covered under the trivial benefit rules? Well, there will be tax and national insurance payable by the employee in the first instance, but if you feel that this would be unfair on your employee(s) and you would like to cover the tax and national insurance on their behalf, then a PAYE Settlement Agreement with HMRC can be put in place.

If you would like any further information on any of the above then please get in touch.

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ANNUAL INVESTMENT ALLOWANCE (AIA)

The AIA is the amount a business can spend on capital equipment in any period and get tax relief in full for the cost, up to the limit and depending on the type of asset acquired.

As a reminder, the AIA is £500K to 31 December 2015 but will reduce to only £200K from 1 January. The limits are prorated across an accounting period and the transitional rules mean that relief could be curtailed if you buy equipment between 1 January and your year end. You may therefore need to make certain that either you incur the cost pre 31 December, or delay the spend until your new accounting period.

Example – year ended 31 January 2016

AIA to 31 December 2015 = 11/12 x £500K	458,333
AIA to 31 January 2016 = 1/12 x £200K	16,667
Total AIA	475,000

The business could spend up to £475K to 31 December and get full relief in the period. However, if it spends this post 1 January, relief will be restricted to £16,667 only, with the balance getting relief at 18%.

This is a timing issue only, but why not plan for the timing of your costs and make sure you get tax relief as quickly as possible? If you would like to discuss this, please do get in touch.

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HELP TO BUY ISAS

The new Help to Buy ISA was launched on 1 December, aimed at helping first time buyers save towards their first home, with the government adding a bonus at the property purchase point.

The main points are:

- Maximum contribution of £1,200 in the first calendar month, then £200 per month thereafter. If you miss a month, you cannot make it up.
- At the point you use the ISA to buy your first home, the accumulated value will have a 25% bonus added to it.
- You must have saved at least £1,600 to get the bonus. The maximum amount upon which a bonus can be calculated is £12,000, making the bonus cap £3,000.
- The bonus scheme is set to pay out up to the year 2030 – unless a change of government changes the rules.
- You must be over the age of 16 to set up an account and a first-time buyer (or intending to be). A first time buyer is someone who doesn't own and never has owned an interest in a residential property.
- The account can be opened between 1 December 2015 and December 2019 by an individual.
- The bonus will only be available on homes worth up to £250,000 (or £450,000 in London).
- You can only have one Help to Buy ISA, but you can continue to add to it each year. You can transfer it to obtain a better interest rate and all interest is tax free.
- At the time of property purchase, your solicitor or conveyor will make an on-line application to obtain the bonus.
- You can cash in the Help to Buy ISA at any time – you just miss out on the bonus if this does not coincide with first property purchase.
- Some providers enable a Help to Buy ISA to run alongside an existing Cash ISA (e.g. Nationwide, but their interest rate is only 2% p.a. compared to the best being 4% p.a). The maximum overall contribution being £15,240.
- Other providers do not have this 'split' product (e.g Halifax at 4% p.a.) and if you set up a Help to Buy ISA with them, any existing Cash ISA for the current tax year will have to be encashed, although you can transfer £1,200 from the existing cash ISA to the Help to Buy ISA. Remaining funds in the existing Cash ISA have to be transferred out (e.g. to stocks and shares ISA or taxable account).

The final two points may make the issue tiresome for individuals who have already made a significant contribution to a Cash ISA in this current tax year and for those who will want to contribute more than the £2,400 Help to Buy ISA maximum in future years, but anyone making a first time purchase should seriously consider these accounts. Please do get in touch if you would like further information on this.

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COMPANY CAR DRIVERS – 3% DIESEL SUPPLEMENT

The scale of charges for working out the taxable benefit for an employee who has use of an employer provided car are now announced well in advance. Cars are taxed by reference to bands of CO2 emissions. From 6 April 2015 the percentage applied by each band went up by 2% and the maximum charge is capped at 37% of the list price of the car.

From 6 April 2016 there will be a further 2% increase in the percentage applied by each band with similar increases in 2017/18 and 2018/19. For 2019/20 the rate will increase by a further 3%. It had been expected that the 3% diesel supplement would be removed from 6 April 2016, however this 3% differential will now be retained until April 2021. This is a blow to diesel car drivers who were expecting to see their car benefit reduce from April 2016.

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THE INTRODUCTION OF AN APPRENTICESHIP LEVY

The government will introduce the apprenticeship levy in April 2017. It will be set at a rate of 0.5% of an employer's paybill, which is broadly total employee earnings excluding benefits in kind, and will be paid through PAYE. Each employer will receive an allowance of £15,000 to offset against their levy payment. This means that the levy will only be paid on any paybill in excess of £3 million.

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HIGHER SDLT ON ADDITIONAL RESIDENTIAL PROPERTIES

Higher rates of SDLT will be charged on purchases of additional residential properties (above £40,000), such as buy to let properties and second homes, from 1 April 2016. The higher rates will be three percentage points above the current SDLT rates, but notably this was missing from the draft legislation issued on 9 December 2015, presumably because of the expected complexities this will entail.

The higher rates will not apply to purchases of caravans, mobile homes or houseboats, or to corporates or funds making significant investments in residential property. The government will consult on the policy detail, including whether an exemption for corporates and funds owning more than 15 residential properties is appropriate. The Chancellor stated that 'more and more homes are being bought as buy to lets or second homes' and 'frankly, people buying a home to let should not be squeezing out families who can't afford a home to buy'.

No mention was made by the Chancellor on the position in Scotland. It is the Scottish Government which sets the rates for the equivalent tax on property – the Land and Buildings Transaction Tax.

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THE INTRODUCTION OF A PAYMENT ON ACCOUNT OF ANY CGT DUE ON THE DISPOSAL OF RESIDENTIAL PROPERTY

From April 2019, a payment on account of any CGT due on the disposal of residential property will be required to be made within 30 days of the completion of the disposal. This will not affect gains on properties which are not liable for CGT due to Private Residence Relief.

Currently, CGT is not payable on a disposal of an asset until 31 January following the tax year in which a disposal is made. So a disposal made on the 6 April 2016 will not result in a tax bill until 31 January 2018.

This measure is another blow for buy to let landlords.

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ADVISORY FUEL RATES FOR COMPANY CARS

New company car advisory fuel rates have been published which took effect from 1 December 2015. The guidance states: 'You can use the previous rates for up to one month from the date the new rates apply'. The rates only apply to employees using a company car.

The advisory fuel rates for journeys undertaken on or after 1 December 2015 are:

Engine size	Petrol
1400cc or less	11p
1401cc - 2000cc	13p
Over 2000cc	20p

Engine size	LPG
1400cc or less	7p
1401cc - 2000cc	9p
Over 2000cc	13p

Engine size	Diesel
1600cc or less	9p
1601cc - 2000cc	11p
Over 2000cc	13p

Please note that not all of the rates have been amended so care must be taken to apply the correct rate.

Other points to be aware of about the advisory fuel rates:

- Employers do not need a dispensation to use these rates. Employees driving employer provided cars are not entitled to use these rates to claim tax relief if employers reimburse them at lower rates. Such claims should be based on the actual costs incurred.
- The advisory rates are not binding where an employer can demonstrate that the cost of business travel in employer provided cars is higher than the guideline mileage rates. The higher cost would need to be agreed with HMRC under a dispensation.

If you would like to discuss your car policy, please contact us.

Internet link: GOV.UK AFR

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'PAYROLLING' BENEFITS IN KIND

From April 2016 the government is introducing a voluntary framework to allow employers to payroll most employee benefits in kind (benefits) rather than report them at the end of the tax year on a form P11D.

In order to payroll benefits an employer will need to include a notional value for employee benefits as taxable pay in the regular payroll cycle. By doing this the income tax due on the benefits can be collected in real time.

Currently the tax due on employee benefits is collected through an adjustment to the employee's tax code. The way that tax codes work means that HMRC try to collect the right amount of tax at the right time. However, when benefits start/stop or are changed there can be a delay in changing the tax code which may result in an employee under or over paying tax.

One of the advantages to employers is that if employees' benefits are payrolled then forms P11D will not need to be completed. Payrolling is not possible for some benefits such as living accommodation, beneficial loans and credit vouchers and tokens.

HMRC have confirmed that there will be no change to the process for reporting and collecting Class 1A NICs. Employers will still need to complete a form P11D(b) after the end of the tax year and calculate and pay the 13.8% employer only liability.

Employers need to register for the new service by 5 April 2016 as HMRC cannot process changes in year. HMRC are advising that employers should ideally register before 21 December to avoid being sent multiple tax codes for employees.

Please contact us if this is of interest to you.

Internet links: GOV.UK payrolling benefits | Employer Bulletin

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SCOTTISH INCOME TAX RATES AND SCOTTISH BUDGET

From April 2016, the Scottish Parliament will have the power to set its own rate of income tax to fund spending by the Scottish government. The rate will be set in the Scottish Budget on 16 December and we will update you on pertinent announcements.

Those who are resident in Scotland will pay two types of income tax on their non-savings income. The main UK rates of income tax will be reduced by 10p for Scottish taxpayers and in its place the Scottish Parliament will be able to levy a Scottish Rate of Income Tax (SRIT) applied equally to all Scottish taxpayers. If the SRIT is set at 10p then income tax rates will be the same as in the rest of the UK. SRIT can however be reduced to zero and there is no upper limit.

The Scottish Rate of Income Tax doesn't apply to income from savings such as building society interest or income from dividends. Tax on this income will stay the same for all taxpayers across the UK. It also doesn't affect income tax thresholds and allowances, which will continue to be set by the UK government.

The definition of a Scottish taxpayer is based on where an individual lives in the course of a tax year. Scottish taxpayer status applies for a whole tax year. It is not possible to be a Scottish taxpayer for part of a tax year. HMRC will identify those individuals who will be Scottish taxpayers based on their records of where individuals live. In early December HMRC started to write to potential Scottish taxpayers to confirm that the address held in their records is correct. If it is, taxpayers will need to take no further action. Those paying the new rate will see their tax code prefixed by an 'S' and their income tax will continue to be collected from pay and pensions in the same way as it is now.

Further details and the effect on employers can be found by visiting the following link.

Internet link: GOV.UK briefing

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