CHARTERED ACCOUNTANTS, TAX CONSULTANTS & FINANCIAL PLANNERS

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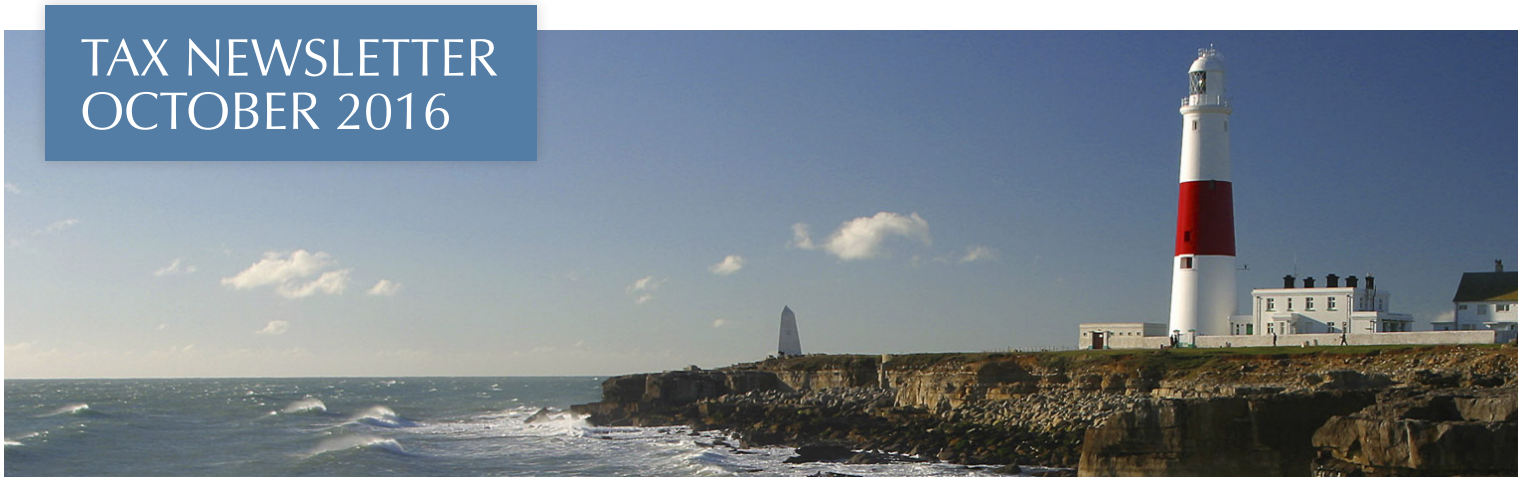

Welcome to this month's eNews in which we take a look at some recent developments on Tax Free Childcare, Lifetime ISAs and National Minimum Wage (NMW) rates. We also consider again whether VAT is recoverable on a company car following a further Tribunal decision, as well as whether it is beneficial to backdate a VAT registration.

There are deadlines this month for filing paper self assessment tax returns and the payment of tax and national insurance under PAYE Settlement Agreements. See the articles below for more details.

Philip Hammond, Chancellor of the Exchequer, will present his first Autumn Statement to Parliament on Wednesday 23 November 2016. We will of course keep you up to date with pertinent announcements from the Autumn Statement with our live Tweets and our usual summary round up after the event.

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

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TAX FREE CHILDCARE

HMRC have announced further details of the new Tax Free childcare scheme which is to be introduced in 2017.

To be eligible, families will have to have all parents in work and each expecting to earn at least £115 per week and less than £100,000 a year and not be already receiving support through Tax Credits or Universal Credit.

The government will top up the account with 20% of childcare costs up to a total of £10,000 - the equivalent of up to £2,000 support per child per year (or £4,000 for disabled children).

HMRC are asking childcare providers to register for the scheme as soon as possible.

Tax-Free Childcare will be launched from early 2017. The scheme will be rolled out gradually to families, with parents of the youngest children able to apply first. Parents will be able to apply for all their children at the same time, when their youngest child becomes eligible. All eligible parents will be able to join the scheme by the end of 2017.

The current system of employer supported childcare will continue to be available for current members if they wish to remain in it or they can switch to the new scheme. Employer supported childcare will continue to be open to new joiners until April 2018.

The existing system of employer supported childcare provides an income tax and national insurance contributions (NIC) relief. The maximum relief is an exemption from income tax and NIC on £55 a week. This relief is per employee, so if both parents are in employment the maximum exemption is £110 per week. In the new scheme the limit is per child.

Throughout September and October 2016, letters are being sent to regulated and approved childcare providers asking them to sign up online for Tax-Free Childcare. Only childcare providers registered with a regulator (such as Ofsted) can receive Tax-Free Childcare payments.

The government will make more information available, including details of how parents can sign up, later this year.

Internet link: GOV.UK tax free childcare

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BACKDATING VAT REGISTRATION

There can be a benefit in a backdated voluntary VAT registration where a business trading below the VAT registration limit provides goods/services to VAT registered customers and those customers can recover the VAT charged as input tax.

The idea is that the VAT registered customers will pay the VAT chargeable and the business pays this over to HMRC as output tax. The benefit for the business is the input tax claimable for the period of registration, or a VAT saving through the use of the Flat Rate Scheme.

This arrangement is being actively marketed by a number of organisations and will typically involve a contingency fee based on a percentage of the VAT saving.

If you would like further details or think you may be able to take advantage of this please get in touch.

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LIFETIME ISA

Following consultation the government has issued further details of the new Lifetime ISA account which is expected to be available from April 2017.

In summary the account will be available to adults under the age of 40 and individuals will be able to contribute up to £4,000 per year and receive a 25% bonus from the government. Funds, including the government bonus, can be used to buy a first home at any time from 12 months after opening the account and can be withdrawn from age 60 completely tax free.

The new Lifetime ISA is designed to allow flexible saving for first time buyers and those wishing to save for their retirement.

Further details of the new Lifetime ISA are as follows:

- Any savings an individual puts into the account before their 50th birthday will receive an added 25% bonus from the government.
- There is no maximum monthly contribution and up to £4,000 a year can be saved into a Lifetime ISA.
- The savings and bonus can be used towards a deposit on a first home worth up to £450,000 across the country.
- Accounts are limited to one per person rather than one per home, so two first time buyers can both receive a bonus when buying together.
- Where an individual already has a Help to Buy ISA they will be able to transfer those savings into the Lifetime ISA in 2017/18, or continue saving into both. However only the bonus from one account can be used to buy a house.
- Where funds are withdrawn at any time before the account holder is aged 60 they will incur a 25% government charge applied to the amount of the withdrawal. This returns the government bonus element of the fund (including any interest or growth on that bonus) to the government with a small additional charge applied.
- After the account holder's 60th birthday they will be able to take all the savings tax free.

Internet link: GOV.UK technical note

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DEADLINE FOR 'PAPER' SELF ASSESSMENT TAX RETURNS

For those individuals who have previously submitted 'paper' self assessment tax returns the deadline for the 2015/16 return is 31 October 2016. 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.

Internet link: GOV.UK Self Assessment

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INCREASE IN NMW RATES

The National Minimum Wage (NMW) is a minimum amount per hour that most workers in the UK are entitled to be paid. NMW rates increases came into effect on 1 October 2016.

- the rate for 21 to 24 year olds has increased by 25 pence to £6.95 per hour
- the rate for 18 to 20 year olds has increased by 25 pence to £5.55 per hour
- the rate for 16 to 17 year olds has increased by 13 pence to £4.00 per hour
- the apprentice rate has increased by 10 pence to £3.40 per hour.

The mandatory National Living Wage (NLW) applies for workers aged 25 and above. This is £7.20 an hour.

NLW and NMW rates will in the future be uprated every April starting in April 2017.

Penalties

Penalties may be levied on employers where HMRC believe underpayments have occurred and HMRC may 'name and shame' non-compliant employers.

National Living Wage hits small business costs

According to research, 47% of small business owners blame increased wages, following the introduction of the NLW, as the main contributor to rising costs.

The research, carried out by the Federation of Small Businesses (FSB), revealed that a third of FSB members claim that the NLW has led to a small increase in their wage costs while one in five have said that their staff costs have increased significantly. Although 59% of FSB members absorbed the increased costs through reduced profitability, 35% have increased prices, 24% reduced staff hours and 23% cut investment.

Updated guidance

HMRC have updated their guidance on payroll reporting including what employers should include on the Full Payment Submission (FPS) and Employer Payment Summary (EPS) returns.

Please contact us if you would like help with your payroll.

Internet links: ACAS article | FSB press release | Payroll guidance

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APPRENTICESHIP LEVY

The way apprenticeships are funded by the government is due to change. The government is introducing the apprenticeship levy from April 2017, which will require employers to contribute to the funding of apprenticeships in England.

The levy rate is 0.5% of the employer's pay bill. The pay bill is the total earnings paid by the employer which attract secondary class 1 national insurance (earnings above £156 per week). Each employer will receive an annual allowance of £15,000 which can be offset against their levy liability.

As a result of the annual allowance, only employers with a pay bill exceeding £3 million will have a levy liability which will need to be paid. The levy will be paid through PAYE. In addition, employers will only need to report the apprenticeship levy to HMRC where they have a liability to pay. It will be reported on the Employment Payment Summary.

Below is an example of how the apprenticeship levy will work:

If an employer has a pay bill of £5 million, the levy will be:

	£
Apprenticeship levy (£5m x 0.5%)	25,000
Less: Allowance	(15,000)
Total Levy Payable	**10,000**

The levy payments will be transferred into a 'digital apprenticeship service account'. Employers can then use the money they have paid into the account to pay for any training provided to apprentices they employ themselves. Funds paid into the account will expire after 18 months.

The apprenticeship levy has been approved in Finance Act 2016, and further guidance on the practical aspects is expected later in the year.

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PAYE SETTLEMENT AGREEMENTS – DUE DATE FOR PAYMENT

If you have a PAYE Settlement Agreement in place for the tax year ending 5 April 2016, the tax and class 1B national insurance was due for payment by 19 October 2016 if paying by cheque, or 22 October if paying electronically. If paying electronically, the funds should have cleared HMRC's bank account by the 22 October. However, this year,

that date fell on a Saturday, so the funds should have cleared by 21 October 2016. HMRC issued payslips to use when making the payment.

If Albert Goodman arranged the PAYE Settlement Agreement on your behalf, you should have received a payment reminder letter. If we can assist you in applying for a PAYE Settlement Agreement, or you have any queries, please do get in touch.

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REPORTING REQUIREMENTS FOR COMPANIES PAYING INTEREST

Although banks and building societies have stopped withholding tax on interest payments from 6 April 2016, these changes do not affect companies which are required to deduct income tax from certain payments, including interest paid to individuals.

Any payments made must be reported to HMRC on quarterly returns for quarters ending on 31 March, 30 June, 30 September and 31 December, although an additional return will be due if your company's accounting period does not end on one of these dates. The returns must be filed, and the tax withheld must be paid to HMRC, within 14 days of the quarter end.

If you are not clear on your obligations, or need any help in completing the returns, please do contact us.

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VAT CLAIM ON COMPANY CARS ALLOWED

HMRC recently lost a first tier tribunal case on the recovery of VAT on the purchase of six cars.

Although most VAT registered businesses are able to recover the VAT on the purchase of commercial vehicles the rules for the recovery on a car state two conditions must be met:

- the vehicle must be used exclusively for business purposes and
- it is not made available for private use.

In the case of Zone Contractors Ltd the court accepted that six cars were not available for private use which allowed the business to successfully recover the VAT on the six cars.

The business had a strongly worded contract of employment that prevented employees from using company cars for private travel. This was the crucial factor in this case and allowed the business to recover over £27,000 in input VAT on the purchase of six new cars.

The tribunal was satisfied that the cars were wholly used for business purposes and were not available for private use. The tribunal also rejected HMRC's argument that the company had failed to demonstrate that the cars were not available for private use.

Other factors which were relevant:

- The Tribunal was satisfied that all employees signed a contract when they first joined the company, which included the following 'It is hereby strictly forbidden for the Employee to use the Company vehicle for any personal use inside/outside their employment hours'.
- The six cars were always kept overnight at the company's offices or were left on site.
- Zone Contractors carry out groundwork projects and the vehicles were appropriate for site based work.
- The taxpayer also successfully counteracted HMRC's argument that the insurance cover of the vehicles included use for 'social, domestic and pleasure' (SDP), and was not just restricted to business use. But the tribunal accepted it was impossible to have a business only policy without the SDP clause.
- HMRC also put forward an argument that private use of a car would include detours to buy 'cigarettes or lunch while out on a business journey or even going off site to collect lunch'. The tribunal concluded that such use could be ignored as de minimis.

- The intended use of the car at the time it is purchased is crucial. The private use issue means that either a legal restriction to prevent such use or a physical restriction must be in place.

HMRC may appeal against the decision.

Internet link: Tribunal decision

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UPDATED GUIDANCE ON GIFT AID

HMRC have updated their guidance for charities and community amateur sports clubs (CASC) on claiming Gift Aid on donations.

The guidance has been amended to reflect updated guidance on the retail Gift Aid process operated by charity shops on donated goods.

Internet link: GOV.UK guidance

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