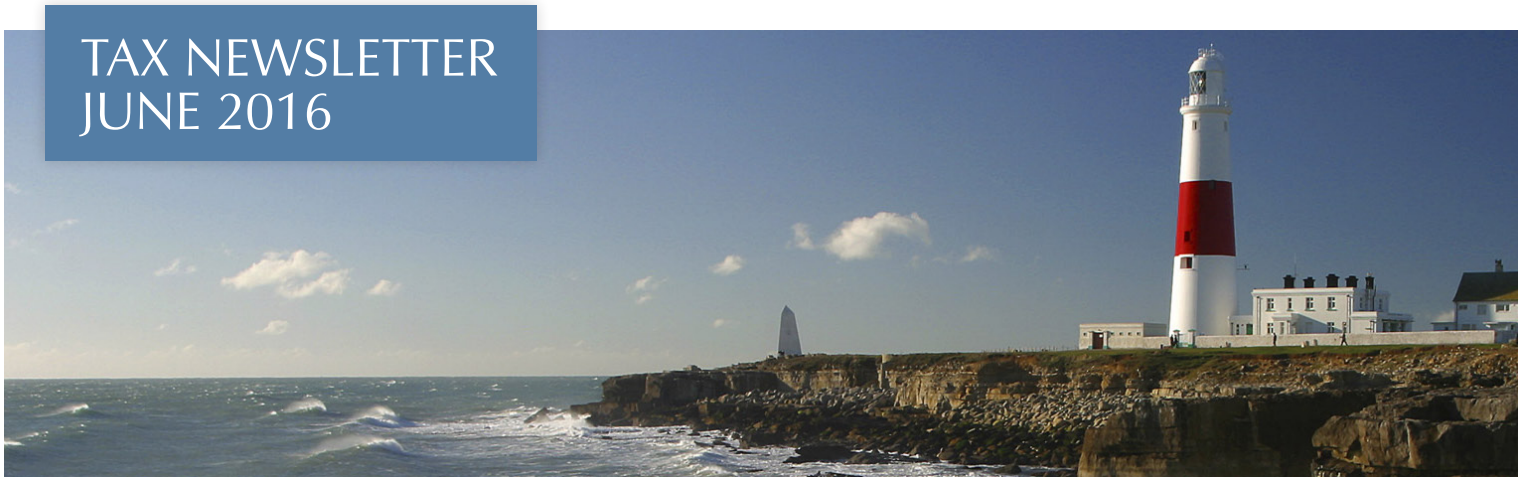
ALBERT GOODMAN

TAX NEWSLETTER JUNE 2016



Welcome to this month's eNews. The next month brings with it two important filing deadlines. The first is for forms P11D, which are a report of benefits provided and expenses paid to employees, and the second is for forms 42 which report share transactions with employees. Both forms are due to be filed by 6 July and we have outlined the requirements for each below.

We also take a look at some issues HMRC are having with the collection of Class 2 national insurance contributions via self assessment, and unexpected liabilities which can arise out of making gift aid donations.

Finally, the advisory fuel rates for company cars have been updated from 1 June and details can be found below.

As usual, please do get in touch if you would like further guidance on any of the areas covered.

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P11D DEADLINE APPROACHING

Forms P11D, and where appropriate P9D, which report details of expenses and benefits provided to employees and directors for the year ended 5 April 2016, are due for submission to HMRC by 6 July 2016. The process of gathering the necessary information can take some time, so it is important that this process is not left to the last minute.

Employees pay tax on benefits provided as shown on the P11D, either via a PAYE coding notice adjustment or through the self assessment system. In addition, the employer has to pay Class 1A National Insurance Contributions at 13.8% on the provision of most benefits. The calculation of this liability is detailed on the P11D(b) form. The deadline for payment of the Class 1A NIC is 19th July (22nd for cleared electronic payment).

HMRC produce an expenses and benefits toolkit. The toolkit consists of a checklist which may be used by advisers or employers to check they are completing the forms correctly.

If you would like any help with the completion of the forms or the calculation of the associated Class 1A NIC please get in touch.

Internet links: HMRC guidance | Toolkit

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FORMS 42

Form 42 is essentially a report to HMRC of all share transactions that have taken place with your employees in the year.

The return for 2015/16, required under the employment related securities legislation, must be submitted online by 6 July 2016. This should include any reportable events such as shares issued to and shares acquired by employees and directors under unapproved arrangements (previously reported on "Form 42"), and annual returns for tax advantaged share schemes such as Enterprise Management Incentive ("EMI").

Automatic penalties can now be applied where returns are made late, with a £100 initial penalty if the filing deadline is missed, a further £300 penalty if still outstanding 3 months later, with a further £300 due if 6 months late, and daily penalties applying if the return remains unsubmitted after 9 months.

If annual returns are not submitted on time for tax advantaged schemes, the valuable tax advantages can be withdrawn.

The employment related securities legislation is complex, and there can be unexpected obligations to file a return, so if you are unsure whether a return is required or not, please contact Helen Cross at **helen.cross@albertgoodman.co.uk**

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CLASS 2 OR NOT CLASS 2 – THAT IS THE PROBLEM

Some accountants and agents are reporting problems caused by the inclusion of Class 2 NIC within the self assessment ("SA") system from 2015/16 onwards. Previously this was collected by direct debit or cheque entirely outside the SA system and did not feature in tax returns, but from 6 April 2015, any liability is being collected via SA instead and should show up in box 4.1 on page TC1 of the SA return.

A return will be correctly completed showing a liability for the year of £145.60 (52 weeks at £2.80) where the business profits exceed the lower limits and the taxpayer has not reached pensionable age. When that return is then submitted to HMRC online, some cases are resulting in an amended tax calculation which excludes the Class 2 NIC liability.

The problem seems to stem from the legacy of computer systems used by HMRC whereby the NIC side was completely separate from the income tax and SA side. If their SA system does not recognise that the taxpayer is liable for Class 2 NIC, then when a return is submitted, their system will reject the calculation and issue a revised calculation which will probably be incorrect.

The Tax Faculty of ICAEW has raised this issue with HMRC who are aware of the problem and are working towards a fix. However, if agents attempt to contact the usual helplines, it appears that this news has not filtered down to all staff, and it will be difficult to get the return amended back to the correct position.

As agents, we should be able to log in to HMRC website and check the details held by HMRC for the client. Included on here is the "information to help you complete your tax return" page. If that shows a Class 2 NIC liability of £145.60 for the client, it is possible that the return will not be "corrected" but if no such figure is shown, it is highly probable that the return will be amended incorrectly.

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GIFT AID DONATIONS - UNEXPECTED LIABILITIES FOR LOW INCOME INDIVIDUALS

This is a short warning for those individuals who generously give to charity, but who don't pay sufficient tax during the year.

For basic rate taxpayers, gift aid relief is obtained by making donations to charities net of basic rate tax. The taxpayer then signs a gift aid declaration confirming they pay tax at at least the basic rate, which enables the charity to make a claim to HM Revenue and Customs (HMRC) for 20%, thereby increasing the overall donation. For example, if an individual makes a donation of £100, this amount is grossed up by 100/80 to make a gross donation of £125. The charity will therefore receive £100 from the individual and £25 from HMRC.

For higher and additional rate taxpayers, they are able to claim relief at their marginal rate of tax via their self-assessment tax return each year, although the charity does not receive anything extra.

The issue arises when the individual does not pay enough tax to cover the 20% claimed by the charity. This could happen when an individual's income falls during the year or where allowances, such as the personal allowance, increase. The result of not paying sufficient tax to cover the charity's claim is that HMRC should recover any underpayment from the individual.

As an example, Jenny earns a salary of £25,000 per year and makes gift aid donations of £20 per month to the RSPCA. However, in May 2015 Jenny starts maternity leave and her income for the 2015/16 tax year is therefore significantly reduced, falling within her personal allowance. Jenny does not therefore pay any tax in 2015/16 and as a result HMRC will charge her £60, which is the basic rate tax on a gross donation of £300 (£20 per month, ie £240, x 100/80).

If Jenny wishes to avoid this charge she will need to cancel her gift aid declaration and not sign any further gift aid declarations during the 2015/16 tax year.

It is therefore recommended that low-income individuals are careful when signing gift aid declarations in order to avoid any unwanted liabilities at the end of the tax year.

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PAY WHEN YOU BUY, PAY WHEN YOU SELL!

From April 2016, buy-to-let property investors and those purchasing second homes will be hit with an additional 3% stamp duty land tax (SDLT) in comparison to people purchasing a first home or replacing a main residence. In real terms this means that the stamp duty payable on a £250,000 property will jump from £2,500 to £10,000.

Not only are property investors being hit with this SDLT surcharge on the purchase of a property but they are now also disadvantaged when they come to dispose of the property as they do not benefit from the reduced rates of capital gains tax (CGT) available to other types of investors from 6 April 2016.

From April 2016, the standard rates of CGT dropped from 18%/28% to 10%/20% depending how much of a gain

falls within the basic rate or higher rate of tax. However, these new rates do not apply to gains on residential property.

When you come to sell residential property, the SDLT paid on the purchase is an allowable deduction when calculating the capital gain and so tax relief will be obtained for that cost in due course. However, being hit with these extra costs on acquisition and disposal, along with the future restrictions to tax relief available for finance costs, is making investment in residential property seem less and less attractive.

Where you are entering into property transactions, the timing of acquisitions and disposals can be key in reducing the SDLT surcharge, and so it is always advisable to take advice before exchange of contracts.

If you have any queries regarding the changes from April 2016, please do get in touch.

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CHANGES TO HMRC BANK DETAILS

Businesses making payments of VAT and corporation tax electronically and quoting IBAN numbers (usually used by overseas organisations to make payments to UK banks, but can also be used domestically) have found their payments being bounced back (and liabilities unpaid) since HMRC changed banks in February 2016.

The initial announcement of this change was a small paragraph in their Employer Bulletin issued in October 2015 (**Bulletin 56**) advising that relevant businesses would be contacted and the new details would be publicised online. One problem appears to be that letters which were sent out advising of the changes were poorly received and in some cases were simply ignored as they were suspected of being scams.

Updated bank details can be found on the Gov.Uk website at **Pay CT** or **Pay VAT.**

Although the changes were made after the last self assessment ("SA") tax payments were due in January 2016, if you pay your SA tax using IBAN codes, please check that you have the updated references at **Pay SA Tax.**

This should not affect simple payments made within the UK using either BACS or CHAPS.

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ADVISORY FUEL RATES FOR COMPANY CARS

New company car advisory fuel rates have been published which took effect from 1 June 2016. 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 June 2016 are:

Engine size	Petrol
1400cc or less	10p
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	10p
Over 2000cc	12p

The **guidance** states that the rates only apply when you either:

- reimburse employees for business travel in their company cars
- require employees to repay the cost of fuel used for private travel

You must not use these rates in any other circumstances.

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

Internet link: GOV.UK AFR

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ARE YOU MISSING OUT ON TAX CREDITS?

According to statistics, more than 1 million people in England, Scotland and Wales, who are eligible for working or child tax credits, don't currently claim their entitlement.

Tax credits have received some bad press over the past few years, with some households having to pay back significant sums of overpaid credits. Largely, this is due to fluctuating incomes within households, as current years' claims are paid based on the previous year's income. When the current year income is finalised, the claim must be adjusted up or down accordingly. With careful management, these overpayments can generally be avoided.

Broadly, you will be entitled to claim some form of tax credits if you fall into one of the following groups:

- You are a parent/parents and your household income is up to £47,000 per annum (or up to £73,000 if you are paying for childcare).
- You are a couple who are both working with household income of under £18,000 per annum, even without children.
- You are single with no children and are working earning under £13,000 per annum.

Tax credits will soon be superseded by the new universal credit system. This is being rolled out in phases and is already in place for single, unemployed new claimants. The new system should be fully implemented for all claimants by June 2018.

If you are already claiming tax credits when the universal system comes in to force, and your claim under universal credits would result in a lower payment, transitional protections are in place to ensure you continue to receive the higher tax credit amount until you have a change of circumstances. If you are claiming tax credits and would receive a higher amount under the universal credits system you will be able to move to the new higher payment straight away. Provided you make a claim as soon as possible, this is a win win situation and everyone who thinks they are eligible should check now.

For those with fluctuating incomes year on year, making a protective claim is also important to ensure you do not miss out on credits when you have a year with particularly low income. This could be particularly relevant to farmers, for example, in the current market.

If you are unsure whether you are entitled to make a claim, or how to make a claim, please get in touch.

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HMRC URGES CLAIMANTS TO RENEW TAX CREDITS ONLINE

HMRC are urging people to renew their tax credits claim well before the 31 July deadline.

HMRC have made improvements to the online renewal service and recommend claimants renew their claim online once they receive their renewal pack which is issued between April and June. The online service can now accommodate all changes in circumstances (working hours, childcare costs or income) which affect the amount of someone's entitlement.

This year, claimants renewing online will be able to access further information, including viewing their next payment, through their own online **Personal Tax Account.**

Internet link: Press release

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PAYE 3 DAYS' GRACE AND RISK BASED PENALTIES TO CONTINUE

HMRC have confirmed, in their updated guidance, that the three day easement and risk assessed approach to issuing penalties will continue to apply for 2016/17. As a result, employers will not incur penalties for delays of up to three days in filing PAYE information during the 2016/17 tax year.

Late filing penalties will continue to be reviewed on a risk-assessed basis rather than be issued automatically.

Employers are required to file a Full Payment Submission (FPS) on or before each payment of wages is made to employees. Limited exceptions apply to this deadline which are set out at **https://www.gov.uk/running-payroll/fps-after-payday'**

HMRC will not charge a late filing penalty for delays of up to three days after the statutory filing date, however employers who persistently file late, will be monitored and may be contacted or considered for a penalty.

If you would like help with payroll matters please do get in touch.

Internet link: GOV.UK Penalties

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VAT FLAT RATE SCHEME GUIDANCE UPDATED

HMRC have issued updated guidance on the operation of the VAT Flat Rate Scheme which allows taxpayers to calculate the VAT payable by applying a flat rate percentage to their VAT inclusive turnover, rather than netting off output and input VAT due on sales and purchases.

The revision in the guidance follows a number of unsuccessful visits to the First Tier Tribunal (FTT). HMRC has issued a revised version of VAT notice 733 Flat Rate Scheme to update their guidance in accordance with the FTT decisions.

The previous version of the notice listed a number of trades and professions (at paragraph 4.4 of the guidance) and indicated the relevant sectors and percentages that these types of business should choose. These had a higher percentage than the 12% rate which applies to 'business services not listed elsewhere'.

The FTT was critical of HMRC in their rigid interpretation of their own guidance. Although this section of the guidance has not been removed, taxpayers are now advised to 'use ordinary English' and choose the sector which 'most closely describes what your business will be doing in the coming year'. The new guidance confirms that HMRC will not change a business's choice of sector retrospectively as long as the choice was reasonable.

Please contact us if you would like any advice on VAT matters.

Internet link: VAT Notice 733

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NAO REPORT SAYS HMRC'S CUSTOMER SERVICE QUALITY 'COLLAPSED'

According to a report by the National Audit Office (NAO) the quality of service at HMRC 'collapsed' over an 18 month period between 2014 and 2015.

The report found that average call waiting times tripled in 2014/15 and in the first seven months of 2015/16. Call waiting times for self assessment tax returns peaked at 47 minutes last autumn, which resulted in HMRC having to bring in 2,400 extra staff for their tax helpline.

Using HMRC's own criteria, the NAO valued people's time at an average of £17 an hour, and, as a result, calculated that callers would have wasted a total of £66 million while waiting on the phone, £21 million while actually talking to HMRC and £10 million on the cost of the call itself.

The NAO report blames the poor performance on HMRC's decision to cut 11,000 staff between 2010 and 2014 in the move to persuade more people to complete their tax returns online. The report claims that HMRC 'misjudged the cumulative impact of its complex transition and released too many customer service staff before completing service changes'.

In other words, it greatly underestimated how many call centre staff would still be required to help taxpayers with self assessment queries.

HMRC said its service levels had improved since the period analysed in the NAO report, and that, over the last six months, call waiting times had averaged six minutes.

Internet links: NAO press release | HMRC news

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HMRC UPDATE PHISHING SCAM ADVICE

HMRC have updated their guidance to taxpayers on how to spot phishing scam emails.

Phishing is the fraudulent act of emailing a person in order to obtain their personal/financial information such as passwords and credit card or bank account details. These emails often include a link to a bogus website designed to encourage the unwary to enter their personal details.

The HMRC guidance is designed to help taxpayers to recognise genuine contact from HMRC, and how to tell when an email/text message is phishing/bogus.

Internet link: HMRC guidance

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