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SHEEN STICKLAND
CHARTERED ACCOUNTANTS Est. 1944

The Quarterly Review - Summer 2017

Making Tax Digital: an update

The government is set to phase in its landmark digital tax initiative, Making Tax Digital, between 2018 and 2020.

Making Tax Digital for Business (MTDfB) is a key part of the new government initiative. From April 2018 many unincorporated businesses and landlords will be required to register, file, pay and update their financial information using a secure online tax account at least quarterly. Following consultation, the government has now made a number of key decisions.

Provision of MTDfB software

Free software will be provided to businesses with the 'most straightforward' tax affairs. Firms will be required to use appropriate software for the needs of the business.

Businesses will also be permitted to use spreadsheets for their record-keeping but these must meet the relevant requirements of the MTDfB scheme. The requirement to keep digital records does not mean that firms will have to make and store receipts and invoices online.

Changes to cash basis accounting

The cash basis entry threshold for unincorporated businesses has increased to £150,000. The exit threshold has risen to £300,000 – double the revised entry threshold.

HMRC is set to introduce a cash basis for unincorporated property businesses, which will serve as the default accounting method. However, there will be a choice to opt out and make use of an accruals basis. A maximum entry limit will be introduced, which is set at £150,000.

Deadlines

Two of the key tasks required of businesses are to report summary information to HMRC quarterly and include an 'End of Year' statement.

Most will be required to use software or apps to keep digital business records and make updates to HMRC at least quarterly in respect of their income tax, VAT and NICs online. When an update is due, taxpayers will have a period of one month to compile and submit their financial records. Businesses will be required to conclude their end of year activity and send their information to HMRC by either 31 January or 10 months after the last day of the period of account (whichever is soonest).

Exemptions and deferments

An exemption from MTDfB for businesses and landlords with income below £10,000 had previously been announced. Charities (but not their trading subsidiaries) will also be exempted from the need to keep records digitally.

The government also outlined that, for partnerships with a turnover above £10 million, MTDfB will be deferred until 2020.

Further changes were unveiled in the 2017 Spring Budget, including a one year deferral from the mandating of MTDfB for unincorporated businesses and landlords with turnovers below the VAT registration threshold (£85,000 from 1 April 2017). They will now be required to start using the new digital service from April 2019.

Penalties and fines

Taxpayers will be given at least 12 months to familiarise themselves with the changes before any late submission penalties are applied.

Please note that following Theresa May's decision to call a snap General Election on 8 June, the government removed legislation to implement MTD from the Finance Bill 2017. The clauses are likely to be reinstated after the election.

As your accountants, we will be keeping you up-to-date with the latest MTD developments.

Business and Tax Round-Up

Bank cheques 'to clear in a day'

New technology set to be introduced later this year will allow cheques paid into bank accounts to be cleared within one working day. The Cheque and Credit Clearing Company – the organisation that manages the cheque-clearing system – has suggested that a new image clearing system will 'revolutionise how cheques are cleared in the UK'.

Instead of the current paper-based system, a digital image of the cheque will be used instead. This should significantly speed up the process. The changes will be phased in from October 2017, with all UK banks and building societies able to offer the new service by the second half of 2018.

Salary sacrifice scheme advantages removed

Effective from April, the tax and employer national insurance advantages of many salary sacrifice schemes have been removed. Employees swapping salary for benefits are now required to pay the same tax as individuals who buy them out of their post-tax income.

Certain benefits are, however, exempt from the changes. These include: pension contributions and arrangements (including pensions advice); childcare vouchers; workplace nurseries; Cycle to Work schemes; and ultra-low emission cars with CO2 emissions of up to 75g/km.

Arrangements made before April 2017 will be protected until April 2018. Arrangements put in place for cars, educational fees and accommodation will be protected until April 2021.

New rules on inheritance tax take effect

From 6 April 2017, a new Residence Nil-Rate Band (RNRB) for inheritance tax (IHT) has been introduced. The band enables a 'family home' to be passed wholly or partially tax-free on death to direct descendants, such as children or grandchildren.

The RNRB is in addition to an individual's own nil-rate band, and is initially set at £100,000 in 2017/18, before rising in a series of stages to reach £175,000 in 2020/21. Up to £1 million of a married couple's estate could eventually be taken outside of the scope of IHT, providing the full nil-rate bands are available to each spouse.

The band can only be used in respect of one residential property. This must have been a residence of the deceased at some point. Buy-to-lets will not, therefore, be eligible for the relief. There is a tapered withdrawal of the RNRB for estates with a net value (after deducting any liabilities but before reliefs and exemptions) of more than £2 million. This will be at a withdrawal rate of £1 for every £2 over this threshold.

For more information on the new RNRB, please contact us. We would be happy to assist you.

Insurance Premium Tax on the rise

As announced in the 2016 Autumn Statement and confirmed in the 2017 Spring Budget, the standard rate of Insurance Premium Tax (IPT) is set to rise from 10% to 12% with effect from 1 June 2017.

The latest increase means that the rate of IPT will have doubled in just over 18 months. IPT rose from 6% to 9.5% in November 2015, and then again by a further 0.5% to reach 10% in October 2016.

The Association of British Insurers (ABI) previously warned that many insurers may pass on the additional tax burden to their customers in the form of higher premiums, rather than bear the extra cost themselves.

It calculated that the rises in both 2015 and 2016 could have added more than £100 to the annual insurance costs of a typical family.

Investors' Relief: could you benefit from a 10% CGT rate?

Many people are aware of the capital gains tax (CGT) savings offered by Entrepreneurs' Relief, but did you know that Investors' Relief also allows individuals to enjoy a lower rate of CGT?

What is Investors' Relief?

Introduced in April 2016, Investors' Relief (IR) is designed to attract new share capital into unlisted companies. IR was billed as an extension to Entrepreneurs' Relief (ER), and the reliefs are similar in providing a 10% CGT rate (rather than a 20% tax rate for higher rate taxpayers) for shareholdings in trading companies. Both reliefs also have the same upper limit, with individuals' qualifying gains for both reliefs subject to a lifetime cap of £10 million.

To qualify for the 10% CGT rate under IR, the shares must:

- be newly issued and subscribed for by the individual, for new consideration
- be in an unlisted trading company, or an unlisted holding company of a trading group
- have been issued by the company on or after 17 March 2016 and have been held for a period of three years from 6 April 2016
- have been held continuously for a period of three years before disposal.

However, while there are similarities between IR and ER, the potential beneficiaries of the two reliefs are different. ER is aimed at shareholders who own at least 5% of the ordinary share capital of the company and who are also officers or employees in that company, whereas IR is designed for non-working investors.

Who will benefit from IR?

Investors and companies seeking additional capital as an alternative to the Enterprise Investment Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS) may want to consider IR as part of their overall investment strategy.

At first sight, the EIS and SEIS look better from the point of view of the investor. These reliefs give income tax relief on the amount invested and a complete tax exemption from capital gains. Conversely, IR gives no income tax relief and a 10% CGT rate. However, IR may be far more attractive to companies seeking investment. The EIS and SEIS are subject to many conditions, including restrictions on the types of trades which qualify, the size of the company, how much can be raised and how and when the monies are invested.

Scenarios in which IR may be attractive to the company raising funds and the investor include:

- asset backed trades which are excluded from the EIS and SEIS, such as hotels, property development and farming
- larger companies on the Alternative Investment Market (AIM). These companies are not regarded as 'listed' and so potentially qualify. Some of these companies could qualify for the EIS but the EIS is restricted to companies with gross assets of less than £15 million before a further share issue.

Claiming the relief

Any claim for IR must be made by the individual on or before the first anniversary of 31 January following the tax year in which the disposal is made.

For more information on Investors' Relief, or for advice on any other reliefs that may be available to you, please contact us.

Pensions re-enrolment: don't get caught out

As an employer, did you know that you have a legal duty to re-enrol certain employees back into an automatic pension scheme every three years, even if they opted out the first time? Failure to do so could result in a penalty...

If you were one of the thousands of businesses that auto-enrolled employees in 2014, you may be approaching the crucial re-enrolment phase, which should take place approximately three years after your original staging date.

Employers are required to complete the re-declaration of compliance with The Pensions Regulator (TPR), even if they do not have any staff to re-enrol. The main qualifying threshold or 'trigger' for employees to be automatically enrolled has been maintained at £10,000 per annum for 2017/18.

Consider the following steps to help ensure that you meet your legal obligations and avoid a potential penalty.

Step one: Choose your re-enrolment date

You have a six month window from which you can choose a date for re-enrolment – this can be either three months before or after the third anniversary of your original staging date. Employers cannot opt to postpone their re-enrolment date, so be sure to choose a date that is achievable for your firm.

Tip: Check your payroll systems and personnel are prepared to deal with a potential increase in employees who may need to be re-enrolled.

Step two: Re-assess your workforce

TPR stipulates that you only need to assess employees who were previously auto-enrolled and have subsequently either:

- asked to leave (opted out of) the pension scheme
- left the pension scheme after the the end of the opt-out period
- stopped or reduced their pension contributions to below the minimum level (and who meet the age and earnings criteria to be re-enrolled).

You are not required to reassess employees who:

- are currently in the pension auto-enrolment scheme (and meeting the minimum contribution requirements)
- are aged 21 or under
- are of or over the state pension age
- do not meet the age and earnings criteria for automatic enolment.

Following assessment, you should re-enrol eligible staff into a qualifying pension and begin making contributions within six weeks of your re-enrolment date.

Tip: Don't forget to continually monitor employees' ages and earnings, which may change their eligibility status.

Step three: Write to those staff that you've re-enrolled

You should write to each employee who has been re-enrolled into the pension scheme. This should be done within six weeks of your re-enrolment date.

Tip: Template re-enrolment letters are available on the TPR website – visit www.tpr.gov.uk/reenrol-letter

Step four: Complete your re-declaration of compliance

You are required to complete your re-declaration of compliance with TPR to let them know that you've met your legal duties. This should be done within five months of the third anniversary of your staging date. You should do this even if you have not re-enrolled any staff into the pension scheme.

Tip: Make sure TPR has your current contact details as it will write to you about your re-enrolment duties.

Further guidance on re-enrolment is available on the TPR website: www.thepensionsregulator.gov.uk.

Web Watch

Essential sites for business owners

www.ncsc.gov.uk

Provides information on how to safeguard your business against cyber-attacks and breaches.

www.smeweb.com

Insightful blog pieces on issues affecting small businesses in the UK.

www.gov.uk/government/organisations/department-for-exiting-the-european-union

New government site dedicated to providing information on all the latest Brexit announcements.

www.childcarechoices.gov.uk

Allows users to make informed decisions regarding childcare schemes and costs.

Tax Tip

Grandparents: don't miss out on national insurance credits

A parent who gives up work is provided with national insurance credits while their children are aged under 12. Under the Specified Adult Childcare credits scheme, if a parent works, the credits can instead be claimed by relatives under State Pension age who care for the child in question.

A grandparent or other relative who takes part in the scheme for a full year is able to claim an extra 1/35th of the state pension – worth up to £231 a year. Furthermore, individuals who have missed out on the scheme can make backdated claims to 2011.

Please visit our website to find more articles from our quarterly review or sign up to our e-newsletter for the full digital version of OnAccount. www.sheen-stickland.co.uk

Reminders for your Summer diary

June 2017

30	End of CT61 quarterly period.

July 2017

5	Deadline for reaching a PAYE Settlement Agreement for 2016/17.
6	Deadline for forms P11D and P11D(b) for 2016/17 to be submitted to HMRC and copies to be issued to employees concerned.
	Deadline for employment related securities returns for 2016/17.
14	Due date for income tax for the CT61 period to 30 June 2017.
19	Class 1A NICs due for 2016/17.
	PAYE, Student loan and CIS deductions due for the month to 5 July 2017.
	PAYE quarterly payments are due for small employers for the pay periods 6 April 2017 to 5 July 2017.
31	Second payment on account 2016/17 due.

August 2017

2	Deadline for submitting P46 (car) for employees whose car/fuel benefits changed during the quarter to 5 July 2017.
19	PAYE, Student loan and CIS deductions are due for the month to 5 August 2017.

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