

Talking Tax

DRIVING LIFELONG PROSPERITY

Winter 2017

SPOTLIGHT ON THE AUTUMN BUDGET

Welcome...

The Chancellor delivered his first Autumn Budget last month with the 'rabbit out of the hat' announcement being an exemption from Stamp Duty Land Tax for first time buyers. We have summarised the key announcements from the day.

In this issue we look at HMRC's rights and powers in respect of tax enquiries and what to do if you receive an unannounced visit from an officer. We also highlight the reduced number of ways in which you will be able to pay your tax bill from next month.

As usual, we also look at what is new in the world of tax including; changes to the utilisation of corporation tax losses, Simple Assessments replacing tax returns and ongoing changes to the taxation of company cars.

Lastly, as Christmas rapidly approaches, we send our usual plea for any remaining tax return information for 2016/17 to be sent in to us as soon as possible.

We wish you, and your families, a very Happy Christmas and a prosperous New Year!



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HAZLEWOODS

DRIVING LIFELONG PROSPERITY

Hazlewoods Tax team do the double!

2017 has proven to be a great year for our tax team!

Hazlewoods were crowned best 'Tax Practice in a Regional Firm' at the Taxation Awards in May 2017. This was closely followed by the accolade of 'Tax Team of the Year' at the British Accountancy Awards in October 2017.

Having previously won the latter award in 2015, Hazlewoods were up against some stiff competition in the likes of Ernst & Young, Moore Stephens and Smith & Williamson amongst others. Being shortlisted against three Top 10 firms was a great achievement in itself but the team were thrilled to go on and win it.

Feedback received from the judges at the British Accountancy Awards included that our team had "...good use of thought leadership and solid client feedback. Hazlewoods also came across as accessible and very human."

Hazlewoods tax videos have also been of particular interest to judges in this year's awards and are a great example of how the team can take a tough topic and turn it into something light-hearted and relevant for their clients and the public.

We are delighted to have won the 2017 Tax Practice in a Regional Firm in the Tolley's Taxation Awards. We are also proud winners of the British Accountancy Awards 2017 Tax Team of the Year.



“What a year 2017 has been, first winning best 'Tax Practice in a Regional Firm' and now, this, 'Tax Team of the Year'. I could not be prouder of the team for all the hard work they put in, every day, which makes winning these awards possible and well deserved.”

NICK HAINES, PARTNER AND HEAD OF HAZLEWOODS TAX TEAM



AUTUMN BUDGET 2017



Anti-avoidance, as always, was mentioned, with a new income tax charge being brought in for royalties paid to a tax haven.



Increase in the tax free personal allowance in 2018/19 to £11,850 and for the higher rate band to £46,350.



Stamp Duty Land Tax exemption for first time buyers of houses worth up to £300,000. First time property purchases of up to £500,000 will receive a nil rate band on the first £300,000.



Diesel car users will see a 1% increase in their taxable benefits if the vehicle is not certified to Real Driving Emissions 2 (RDE2) standard.



'Indexation allowance' will be frozen from 1 January 2018. Companies will no longer benefit from relief for inflationary rises when selling chargeable assets.



Enterprise Investment Schemes - relief will not apply on 'safe, capital preservation' companies, but the £1 million investment limit will be doubled for those investing in knowledge intensive companies



1% increase in the main rate for R&D tax relief to 12%, for those carrying out qualifying research and development.



VAT registration threshold of £85,000 is to be frozen for the next two years.

Corporate tax loss reform

New rules have been introduced with effect from 1 April 2017 for the utilisation of carried forward corporation tax losses.

There are two strands to the new rules, the first allowing more flexibility to utilise carried forward losses but the second to add further restrictions for larger groups with significant profits.

Although the rules have applied since April this year, the legislation supporting this has only just been set in statute. Due to this, there has been uncertainty for quite some time that the rules, which should have already come in, should actually be applied!

INCREASED FLEXIBILITY FOR OFFSET OF LOSSES

Currently there are restrictions on how carried forward losses can be used against future profits. For example, carried forward trading losses can only be offset against profits from the same trade to which they relate. In addition, it is not possible to group relieve carried forward losses.

Under the new rules, corporation tax losses arising after 1 April 2017 can be carried forward and offset against the total taxable profits of the company, as well as the profits of its group members. Trading losses incurred before this date can still only be offset against profits of the same trade.

To prevent abuse, anti-avoidance rules will also apply. These include rules to deter purchases of companies with significant losses. Some of the provisions are:

- Following a change in ownership, any pre-acquisition losses in the acquired company will not be available for use in the new group for five years.
- If the trade subsequently becomes small or negligent, post 1 April 2017 losses can only be used against the same trade.
- Companies with carried forward losses will only be able to surrender these to other group companies if the company surrendering them has assets capable of producing income.
- If there are arrangements in place with the main purpose of obtaining a benefit from the loss reform rules, a targeted anti-avoidance rule will apply.

PROFITS IN EXCESS OF £5MILLION

Currently there is no restriction on the amount of carried forward losses that can be offset against current year profits. Therefore, some companies with substantial profits may not be paying tax for many years if they have a large bank of losses.

Under the new rules, any carried forward losses as at 1 April 2017 can be utilised without restriction against (up to) £5million of profits. Above this, it will only be possible to offset 50% of the remaining taxable profits with carried forward losses.

For example, a stand-alone company with profits of £11million after in-year reliefs will only be able to cover a maximum of £8million profits by carried forward losses (i.e. the £5million allowance plus 50% of the remaining £6million of profits).

Only one £5million allowance will be available to groups of companies, but the group can determine how it wishes to allocate this. A group is, broadly, defined as a company and any of its 75% subsidiaries.

If the profits of the company or group are below £5million, there will be no restriction, so the majority of small companies and groups should be unaffected.

OTHER POINTS TO NOTE

Companies that do not have a 31 March 2017 year-end will be required to apportion profits and losses on a time basis as though there are two separate accounting periods. Separate pools will then need to be maintained, with details of pre and post April 2017 losses, as well as trade and non-trade losses.

The new rules apply to most carried forward losses including trade losses, non-trading loan relationship deficits, management expenses and UK property losses; capital losses are excluded.

Overall, the changes are welcome as there will be increased flexibility for all companies, with only a small number of larger companies/groups being affected by the 50% restriction.



RULES AND REGULATIONS

TAX PAYMENT METHODS REDUCED BY HMRC

HMRC have announced that personal credit card payments will no longer be accepted from 13 January 2018 to settle taxes, penalties and enquiry settlements. This move comes shortly after the announcement that post office payments will no longer be accepted from 15 December 2017.

Currently HMRC charge up to 0.606% on personal credit card payments but, with regulations being introduced from 13 January to prohibit such charges,

HMRC have taken the stance to remove the payment option altogether.

This is unfortunate timing given the 31 January self-assessment deadline and so soon after Christmas. Many taxpayers could now find themselves in the position of having to find the funds to settle their tax liability a month earlier than anticipated through direct debit payments or bank transfers rather than on a credit card.

It could also lead to more people paying their tax later, particularly as late

payment penalties are only applied if the tax is not settled by 2 March 2018. It should be noted, however, that interest would still apply on any late payments to HMRC (3% from 21 November 2017).

HMRC have also now announced that, where possible, repayments will be made back to the last debit or credit card used to make a self-assessment payment.

Previously, this was refunded direct to a taxpayer's bank account and it has been highlighted that this could cause hardship for some.

SIMPLE ASSESSMENT

To try and reduce the number of people who have to complete a tax return, HMRC have introduced 'Simple Assessments'.

A Simple Assessment replaces a tax return and is a tax calculation completed by HMRC and sent to the taxpayer. The intention of this is to take 2 million individuals out of self-assessment and is aimed at taxpayers with relatively simple affairs.

If a tax return has already been filed for the year, HMRC are not able to issue a Simple Assessment. HMRC can, however, withdraw a notice to file a tax return and issue a Simple Assessment instead.

HMRC have already begun to issue Simple Assessments in respect of the tax year 2016/17. The first set of taxpayers HMRC are issuing assessments to are those who are employed and paying tax through PAYE, but have underpaid tax that is not possible to collect via their tax code. State pensioners with pension income above the personal allowance will be next on the list, but not until the 2017/18 tax year and so will need to complete a tax return as normal for 2016/17.

If you receive a Simple Assessment, you have a 60-day window to challenge, after this time it becomes binding. A check of the calculation and information included should be carried out by the taxpayer or a professional to confirm the accuracy of the assessment. It will also be important to ensure that all relevant income and gains have been included and any reliefs have been maximised.

The assessments are made based on third party information held by HMRC but this doesn't always mean that it is going to be accurate and complete. It is, therefore, essential that it is carefully checked. If the assessment is missing income or gains, which is not reported to HMRC, the individual could be liable to additional tax, penalties and interest. Conversely, HMRC may not have applied certain reliefs such as gift aid payments, offset of losses etc. which could result in a higher tax liability for the individual.

The payment deadline is 31 January following the end of the tax year it relates to (e.g. 31 January 2018 for 2016/17) or, if later, three months from the date the assessment was issued.

With 11 million people in the UK now under self-assessment, this is likely to be a welcome move for those who are no longer required to complete a return. As stressed already, however, it is essential that these are carefully checked.



TAX INVESTIGATIONS

HMRC have certain rights and powers when it comes to tax enquiries and investigations, however, they have been known to overstep the mark in certain situations.

In this article we take a look at HMRC's rights and powers in two areas; unannounced visits and enquiry notices.

UNANNOUNCED VISITS BY HMRC

HMRC have the power to make unannounced visits to any business. It is not uncommon for HMRC to visit a business late at night.

If this does happen, we would advise the following:

- ✓ Call us prior to allowing entry. If it is out of office hours, and you are a member of our Tax Investigation Service, there is a 24 hour helpline you can call where advice will be provided on how to deal with the situation.
- ✓ Check their ID by calling HMRC to confirm the role of each person.
- ✓ Check the date and time of the notice is correct.
- ✓ Question why the visit could not have been pre-arranged.
- ✓ If the visit is after 5pm ask why they could not have come earlier.
- ✓ You do not have to let them in! If the Tribunal has authorised the inspection, however, HMRC may issue a penalty of up to £300 (which could be disputed).

If the visit does go ahead, HMRC do not have the right to:

- ✗ Enter a residential property that is not used for business.
- ✗ Search the premises – they can only request to inspect business premises and documentation.
- ✗ Interview you or your staff.
- ✗ Insist that you cash up at a time other than you would normally in the course of business.
- ✗ Inspect cash unless the cash is trading stock.

ENQUIRY NOTICES

It is essential that any enquiry notice is checked for its validity and reasonableness of request. Many of the enquiry notices we receive from HMRC on behalf of our clients are out of time, invalidly raised or requesting unreasonable information. We also receive a number of 'fishing' letters without any statutory basis.

If you receive an enquiry notice you should:

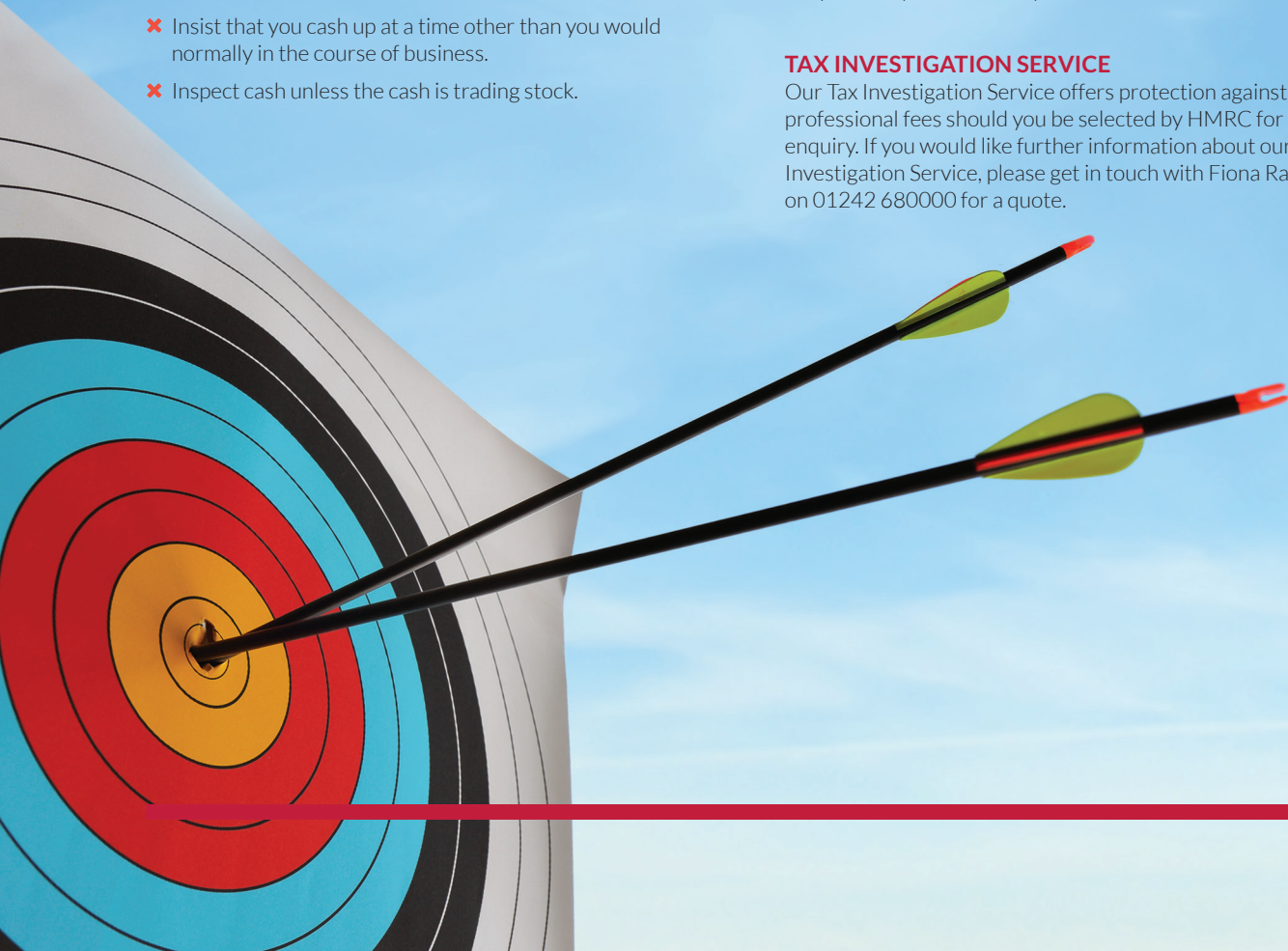
- ✓ Check the date of the enquiry - HMRC have 12 months from the date on which you filed your return until the date that you physically receive the enquiry letter to begin the enquiry (unless your return was filed late).
- ✓ Check HMRC's request is reasonable; they can only ask for something that they reasonably need to check your tax position. For example, a request for all personal bank statements going back a number of years is likely to be beyond a reasonable request in most instances.
- ✓ Check the date HMRC have requested a response by and, if you are unable to gather the information required within that timeframe, contact HMRC as soon as possible to request an extension.
- ✓ Check that it is a valid enquiry; the appropriate legislative reference under which the enquiry has been raised should be quoted on the letter.

HMRC do not have the right to ask you for:

- ✗ Privileged information between you and your legal adviser
- ✗ Personal records
- ✗ Documents outside of your possession or that you cannot easily obtain
- ✗ A document which is more than six years old (unless specifically authorised by a senior HMRC official)

TAX INVESTIGATION SERVICE

Our Tax Investigation Service offers protection against professional fees should you be selected by HMRC for an enquiry. If you would like further information about our Tax Investigation Service, please get in touch with Fiona Rawle on 01242 680000 for a quote.



COMPANY CAR CHANGES

Significant changes to company car tax rates and capital allowances are to be introduced over the next few years. If you operate a company car scheme, a review of the list of company cars offered to your employees would be advisable to ensure that allowances are maximised and taxes minimised as far as possible.

CAPITAL ALLOWANCES

The CO₂ emissions threshold has steadily been reducing over the past few years and from 1 April 2018 it is set to reduce again (see table below).

RATE	2018/19	2017/18
100% First Year Allowance	Electric cars or if CO ₂ emissions are 50g/km or lower	Electric cars or if CO ₂ emissions are 75g/km or lower
18% Writing Down Allowance	CO ₂ emissions exceed 50g/km but are 110g/km or lower	CO ₂ emissions exceed 75g/km but are 130g/km or lower
8% Writing Down Allowance	CO ₂ emissions exceed 110g/km	CO ₂ emissions exceed 130g/km

To maximise allowances, a review of the company cars list available to employees could be undertaken to remove any cars with CO₂ emissions exceeding 110g/km.

BENEFIT-IN-KIND

Benefit-in-kind (BIK) rates are on the increase. However, from April 2020, the pure electric mileage range of a car will also be taken into account. For example, by 2020 a car with CO₂ emissions of 0-50g/km and an electric range of 30 miles or more will be subject to a 2% BIK rate of taxation. This could significantly reduce the tax liability for an employee, who in the previous year would have been subject to tax on the benefit at a rate of 16%.

MULTIPLE ADDED TO LIST PRICE				
CO ₂ EMISSIONS	2017-18	2018-19	2019-20	2020-21
0g/km	9%	13%	16%	2%
0 - 50g/km	9%	13%	16%	14% (but reduced rates of 2%, 5%, 8% and 12% depending on pure electric mileage range)
51- 54g/km	-	-	-	15% + 1% for every 5g/km band above e.g. 55-59, 60-64 etc. (max 37%)
51- 74g/km	13%	16%	19%	-
75- 94g/km	17% + 1% for every 5g/km band above e.g. 95-99, 100-104 etc. (max 37%)	19% + 1% for every 5g/km band above (max 37%)	22% + 1% for every 5g/km band above (max 37%)	-

Note: 3% supplement added for diesel cars, subject to a maximum percentage of 37% (4% from 2018/19 if not conforming to the relevant standards).

SALARY SACRIFICE

A further change, which was effective from April 2017 relates to salary sacrifice. Company cars provided via salary sacrifice are now subject to tax on the higher of; the amount sacrificed, and the taxable benefit value.

Example

A company car is provided to a basic rate taxpayer who, in turn, sacrifices £5,000 of salary. The annual benefit (as calculated using the BIK table above) is £4,000.

Under the new rules, the employee will save £600 in NI on the £5,000 reduction in salary. They will, however, be subject to income tax on the £5,000 salary sacrificed. The employer will also be subject to NI on the £5,000 salary sacrificed, so there will be no saving for the employer.

Under the old rules, the employee would have only been subject to tax on the benefit value of £4,000, saving income tax on the £1,000 difference and the employer would have also saved NI on the same amount.

HOW WE CAN HELP

The tax reliefs for company cars have continued to diminish over recent years, however, they are still regarded as a valuable part of an employee's remuneration package. It looks like the general pattern will be a move towards more eco-friendly cars as the BIK charges reduce.

We can advise on the tax impacts of providing a company car to your employees, both for the employer and employee. We can also provide comparisons for owner managed businesses on the tax impacts of owning a car personally versus through the company.

PROPERTY UPDATE

MINIMUM ENERGY EFFICIENCY STANDARDS

New regulations apply from 1 April 2018, which will make it illegal to grant a new lease or renew an existing tenancy of privately rented property with an Energy Performance Certificate (EPC) rating of F or G.

Under the rules, a landlord will be prohibited from letting the property until the relevant improvements have been made to obtain a minimum E EPC rating.

These regulations will be extended to include all privately rented properties, even if there hasn't been a change in tenancy arrangements, from 1 April 2020 for domestic properties and 1 April 2023 for commercial properties. It is also anticipated that in future years, the minimum EPC rating will be increased to C.

The penalty for non-compliance could be as high as £150,000 depending on the length the property has been let unlawfully and the rateable value of the property. A minimum penalty of £5,000 will apply.

Certain exemptions apply where the minimum standard has not been met but appropriate steps have been taken to make improvements as far as possible under the regulations. For example, all cost-effective improvements have been made but the EPC rating is still below E. Any exemptions must be registered with the government on the 'PRS Exemptions Register' and must be renewed after five years.

ATED VALUATIONS

The Annual Tax on Enveloped Dwellings (ATED) is an annual tax applying to companies holding UK residential properties valued in excess of £500,000.

To avoid companies having to obtain annual valuations, the legislation provides for valuations only being required every five years. 1 April 2017 is a valuation year and, as such, all companies will be required to value their residential properties at this date for the 2018/19 ATED year.

An updated valuation is inevitably likely to lead to higher property values. This could in turn result in higher ATED charges, if the property moves into a higher threshold band, or could bring a property within the charge that was previously below the £500,000 threshold.

Although a third party/professional valuation is not mandated, it may be worthwhile considering, particularly if the property was on the cusp of a band at the 2012 valuation or has had substantial works carried out on it since this time.

If the property valuation is within 10% of an ATED band, it is possible to request advance confirmation from HMRC that they are in agreement with the valuation. The Autumn Budget also announced a small rise (approximately 3%) in ATED charges for 2018/19.

MEET THE TAX PARTNERS



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