Talking Tax

DRIVING LIFELONG PROSPERITY

Spring 2020

SPOTLIGHT ON BUDGET 2020

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HAZLEWOODS

DRIVING LIFELONG PROSPERITY

Budget 2020

Pubs with a rateable value of less than £100,000 will enjoy a £5,000 discount on their business rates.

Entrepreneurs' relief (business asset disposal relief) lifetime limit reducing from £10 million to £1 million.

Business rates abolished for one year for shops, restaurants, cinemas and music venues with a rateable value of below £51,000.

Corporation tax to be maintained at 19% rather than falling to 17% as previously announced for 2020/21.

Pensions contribution minimum allowance to reduce from £10,000 to £4,000 but thresholds at which the £40,000 allowance starts to taper have been increased by £90,000.

Non-taxable counselling services provided by employers extended to cover related medical treatment, such as cognitive behavioural therapy, with effect from April 2020.

VAT on e-publications to be zero rated from 1 December 2020.

VAT on women's sanitary products abolished from 1 January 2021

Plastic packaging tax of £200 per tonne for plastic packaging with less than 30% recycled content from April 2022.

A review of the Enterprise Management Incentive scheme has been announced and will look at whether more companies should be able to access the scheme.

R&D expenditure credit increased from 12% to 13%.

A freeze on beer, wine, spirits and fuel duty.

Structures and buildings allowance to increase from 2% to 3% from 1 April 2020.

2% surcharge for non-residents acquiring UK residential property from April 2021.

From 1 July 2020, related party acquisitions of intangible fixed assets (IFAs) which were created before April 2002 will now be taxed under the corporate IFA regime (rather than chargeable gains).

Investment in additional compliance officers and new technology for HMRC, forecasting additional tax revenues of up to £4.4 billion as a result.

Employment allowance increased by 1/3 to £4,000 but only available to businesses with employer's NIC bill of less than £100,000.

National insurance threshold for employees – up by 10% to £9,500.

Exempt benefits

When considering an employee's remuneration package, benefits in addition to a basic salary are often offered. It is also common for employers to want to provide their employees with gifts at certain points during the year.

The general rule is that benefits received are taxed on the employee, based on the cash equivalent of the benefit less any amounts made good to the employer.

Certain benefits may, however, be provided to employees tax-free. When looking to make gifts to your employees or enhance their remuneration package, therefore, it is worthwhile considering the type of benefit to offer.

Some examples of tax-free benefits include:

- Pension contributions paid by the employer into a registered pension scheme for the employee;
- Free or subsidised meals in an employer's canteen, provided that they are offered to all employees;
- Annual events such as a staff Christmas party but capped at a maximum of £150 (including VAT) per individual attending. There is no limit on the number of annual events held provided the total cost does not exceed £150 per head. For example, if there are three events held at a cost of £75, £80 and £60 per head each, the latter two can be claimed as exempt but the first event will be taxable in full (it is not possible to just tax the excess over £150);
- Long service awards for employments of 20 years or more and up to a maximum of £50 per year of service. Further tax-free awards can only be provided if a minimum of 10 years after the first;
- Provision of bicycles and/or safety equipment used in a 'cycle to work' scheme. Again, this must be offered to all employees and the employee must use the bicycle in qualifying journeys such as from home to work;
- Training costs and professional subscriptions;
- Trivial benefits where the cost of the benefit is less than £50 and subject to certain other conditions, including that it is not cash or a cash voucher (albeit high street vouchers are fine) and it must not be provided in recognition of the employee's services. There is no cap on the number of trivial benefits that can be provided to an employee in a year, however, directors of close companies will be subject to an annual exempt amount of £300.

As always with tax, there are certain conditions to be met in order for a benefit to qualify as tax-exempt. We would recommend advice is sought prior to providing such benefits to avoid a surprise tax and NI bill for the company and its employees.

A SPOTLIGHT ON...

KATIE WILLIAMS
Tax Director

Katie Williams is a director in our tax team, specialising in personal tax as well as heading up our employment taxes unit.

What is keeping you busy at work?
What isn't?! Even with the 31 January tax deadline behind us, there is still no let up! The tax system is not getting any simpler which keeps things interesting but also challenging at times. As such, a key aspect of my role is managing client expectations and helping them to understand how their tax liability has been calculated, as well as highlighting any risks or tax exposure in a straightforward and easily understandable way.

Are there any new tax rules causing your clients a headache?
The new off-payroll working rules in the private sector that are due to come in from April 2020. This is a massive change for businesses to get their heads around and could have a significant impact on contractors working off the payroll, via their own personal service company.

As the commencement date is upon us, medium and large size private sector businesses need to identify any workers that they engage off-payroll (if they haven't already) and review whether the new legislation could apply. Status determinations will then need to be issued to all off-payroll workers confirming the business's assessment as to whether the rules apply.

What should clients be thinking about at the moment?
For employers, I would say having a look at their PAYE systems and processes and checking that they are up to date and compliant. We are seeing an increasing number of checks from HMRC recently and, interestingly, desk based (often in the form of a questionnaire) rather than the more traditional visit. What might seem like a simple request, could later expose the client to a full blown enquiry if not answered correctly or ignored altogether. HMRC has also not been copying in agents to these requests, but I would certainly recommend that professional advice is sought before responding!

Tell us something that we might not know about you?
I come from a military family; in my 12 years of working at Hazlewoods I have moved nine times, the furthest I have lived from our Cheltenham office is 6,524 km – fortunately our flexible working policy meant I didn't have to commute into the office too often!

TAX ROUND-UP

ACCELERATED CGT PAYMENT DATE FOR PROPERTY DISPOSALS

With effect from 6 April 2020, any capital gains tax (CGT) due on the disposal of a residential property will be reportable and payable within 30 days of the sale's completion.

Currently such disposals are reported, and any tax paid, under self-assessment i.e. by 31 January following the tax year in which the disposal occurred (i.e. up to 22 months after the disposal). Further, disposals of residential properties that have been your only or main residence throughout the period of ownership are not subject to tax.

This change, which will predominantly affect those disposing of second homes or rental properties, could catch out the unwary if they do not advise their accountant at the time of the disposal. Given the short turn around time, giving as much notice as possible is advised to allow for complications to be overcome with calculating the liability part way through the year.

The taxpayer will have to make a declaration that the return is complete and correct to the best of their knowledge and HMRC have the power to enquire into the return, so it will be important for them to have the information available to complete it. Interest and penalty charges will be levied by HMRC if taxpayers fail to submit the return on time.

COMMON SENSE PREVAILS IN PROPERTY DISPOSAL CASE

The Court of Appeal has overturned an earlier decision by the Upper Tier Tribunal (UTT) which held that an individual who had purchased an off-plan flat was not entitled to full principal private residence relief.

The Court of Appeal held that the period of ownership runs from the point of completion and not exchange. This common sense decision overturns the UTT ruling which held that, as the individual had not been in occupation for the entire period of ownership, he would be liable to capital gains tax on an element of the gain realised on sale of the property. This was even though the flat had not been built/occupiable in that preceding period!

OFF-PAYROLL WORKING

Our Autumn 2019 Talking Tax looked at the proposed changes from April 2020 for large and medium-sized businesses engaging off payroll workers.

Since this time, HMRC have confirmed that they will take a 'light touch' approach to penalties in the first 12 months which is welcome news. The rules will now also only apply to services carried out after 6 April 2020 and not payments made after this date, as originally announced.

They have also confirmed that where changes to status are adopted from April 2020 (e.g. from contractor via the individual's own personal service company to an employee) they will not use this information to enquire into the tax position for earlier years. The only caveat to this is where fraud or criminal behaviour is suspected.

HMRC also released an enhanced version of their check employment status for tax (CEST) tool in November 2019 which enables individuals and organisations to check employment status. Providing information is inputted accurately into the tool, HMRC confirm that they will stand by the result given.

CAR BENEFITS – A FURTHER COMPLEXITY

A reduction to the taxable benefit-in-kind of 'green' company cars from April 2020 has been widely reported and eagerly anticipated. Many company directors and employees are now looking at electric and hybrid vehicles as the company car of choice in order to bring their tax liability down. In 2020/21 there will be no benefit in kind charge for pure electric cars and a charge as low as 2% of the car's list price for hybrids (depending on its electric range) compared to the current minimum of 16%.

Further complicating this, however, is a change in the method used to determine the CO_2 emissions of the car where registered after 5 April 2020. To compensate for this change (which will generally result in higher CO_2 emissions) there will also be different rates for cars registered after this date in the 2020/21 and 2021/22 tax years.

For example, a new car with CO_2 emissions of 54g/km will be subject to tax at 13% of the list price in 2020/21 compared to 15% for a car registered pre 6 April 2020.

IHT LATEST STATS

Inheritance tax (IHT) receipts have increased year-on-year since 2009 and 2018-19 continues that trend. A record £5.4 billion of IHT was received by HMRC in the last tax year; up 3% on the prior year.

One of the main reasons for this trend has to be the fact that the nil-rate band (i.e. the threshold before having to pay IHT) has remained static at £325,000 since 2009.

Somewhat surprisingly, however, the amount of relief claimed for agricultural and business property has fallen as well as exempted transfers to charities. With increasing property prices, we would also expect the relief given to follow the same upward trend, but this could be down to a lack of planning by individuals to ensure that all reliefs are maximised on death.

PENSIONS ALLOWANCE

Each individual has a pension contribution allowance of £40,000 per annum, which is known as the 'annual allowance'.

Up until April 2020, this annual allowance was tapered down by £1 for every £2 of 'adjusted income' above £150,000 but could not be reduced below £10,000. A reduction to the annual allowance also only applied if your 'threshold income' was also above £110,000.

Budget 2020, however, announced an increase of £90,000 to both thresholds of adjusted income and threshold income. This was following recent press coverage that NHS doctors and consultants were capping their hours due to the tax liability arising from their pensions relief restriction. Alongside this, however, the Chancellor, also announced that the minimum allowance would fall from £10,000 to £4,000.

Therefore, from April 2020 if you have adjusted income of £312,000 or more (and threshold income in excess of £200,000), you will only be entitled to the new minimum annual allowance of £4,000.

CALCULATING THRESHOLD INCOME AND ADJUSTED INCOME

THRESHOLD INCOME	ADJUSTED INCOME
Taxable income (including all earnings, dividends, rent and interest)	
DEDUCT: gross personal pension contributions paid net of tax	ADD: pension contributions made on your behalf or where immediate tax relief is not given
DEDUCT: lump sum death benefits from pension schemes	ADD: pension contributions taken from pay before income tax
ADD: reduction of employment income for salary sacrifice/flexible remuneration to pensions after 8 July 2015	ADD: employer pension contributions
	DEDUCT: lump sum death benefits from pension schemes

It is possible to carry forward any unused element of your annual allowance for up to three years. If you exceed your allowance, you will be taxed at your highest marginal rate on the excess.

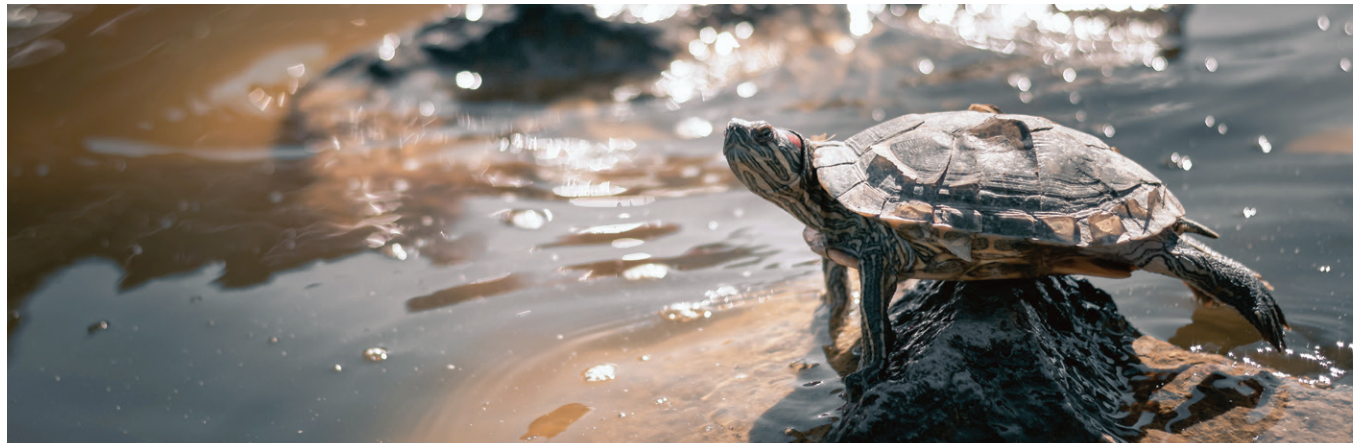
CALCULATING EMPLOYER PENSION CONTRIBUTIONS

For **defined contribution** schemes this is simple. It is the monetary amount of the gross contribution.

For **defined benefit** schemes, it is not so straightforward. The physical amount of contributions made is irrelevant, instead the annual allowance utilised is calculated by reference to the increase in value of your retirement benefits. This calculation is complex and even just a small increase in salary can result in a tax charge.

HOW WE CAN HELP

Our Financial Planning team can assist with calculating your threshold and adjusted income, the calculation of your pension contribution allowance and with recommending a suitable pension scheme provider and pension contribution amount.



EMPLOYMENT ALLOWANCE

Budget 2020 confirmed the Conservative's manifesto pledge of increasing the employment allowance from £3,000 to £4,000 from April 2020.

This allowance can be offset by employers against their annual secondary Class 1 national insurance contributions (NIC) bill.

This increase, however, is only good news for smaller employers as, with effect from the same date, the allowance will be restricted to employers with a secondary NIC bill of less than £100,000.

As a result of this restriction, some additional compliance requirements will apply. This includes, for groups, confirming that the aggregated NIC bill is less than £100,000 and that the claimant company is the only connected company claiming the allowance.

This allowance will now also be classed as state aid. This means that employers will also need to check before claiming (along with any other state aid received) that they do not exceed the total aid they are allowed to receive in a given three-year period. This cap varies depending on business sector from €20,000 to €200,000

Due to the additional admin required, the relief will no longer apply automatically after the first year it is claimed (as currently) and instead must be claimed each year going forward.

MEET THE TAX PARTNERS

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