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## LG News

### Further MTD guidance published

In response to calls for additional clarity from businesses and their representatives, HMRC have published further information on Making Tax Digital (MTD) to support them with preparation in the run up to the start of the mandatory MTD VAT service from April 2019.

The guidance includes:

- A new HMRC VAT Notice entitled Making Tax Digital for VAT (Notice 700/22). The Notice explains the digital records businesses must keep, and ways to record transactions digitally in certain circumstances; and what counts as 'functional compatible software', and when software programs do and do not need to be digitally linked where a combination of programs is used.
- A page on GOV.UK providing a list of software developers HMRC are currently working with during the MTD VAT pilot that have already demonstrated a prototype of their product ready to start testing with businesses and/or agents.
- A communications pack to provide stakeholders with information to support businesses and agents to prepare for MTD. The pack is intended to provide source material and information which can be used to support any letters, articles, presentations, social media activity, or web content planned by stakeholders.

As part of MTD, businesses registered for VAT with a taxable turnover above the VAT registration threshold of £85,000 will need to keep VAT records digitally and file their VAT returns using MTD compatible software. This will start from their first VAT period starting on or after 1 April 2019. Businesses with a taxable turnover below the VAT threshold will not have to operate MTD, but can still choose to do so voluntarily.

Businesses above the VAT threshold are not required to use MTD for their VAT returns until April 2019 but HMRC have already started piloting the changes with small numbers of invited businesses and agents. This will be widened out to allow more to join later this year. In the meantime, businesses can start to prepare now by ensuring they are keeping their records digitally and in accordance with the rules set out in the Notice.

### Saving tax with simplified expenses

Certain sole traders and partnerships may benefit from using HMRC's simplified expenses regime to calculate business expenses for vehicles, working from home and living on the business premises.

Currently, businesses can either calculate expenses by working out the actual costs, or use HMRC's published flat rates.



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HMRC's checker can be used to work out which method will produce the most favourable result.

The checker asks the user to make estimates about some of their business expenses.

However, the tool:

- does not give exact figures to use in the individual's your tax return - it merely confirms which method of calculating expenses might save the taxpayer money;

- can only give an answer for one vehicle at a time - where the business has several vehicles, the user will have to start at the beginning of the checker for each vehicle.

The checker cannot be used for vehicle expenses if:

- the cash basis is used and the vehicle has already been deducted as a capital cost;

- the vehicle being claimed for is used by an employee and tax is paid on it as a benefit; or

- a claim is being made for a car which has been used in the business before April 2015.

### **Current rates**

HMRC-approved rates under the simplified expenses regime are currently as follows:

#### **Vehicles**

- Cars and goods vehicles first 10,000 miles - 45p per mile
- Cars and goods vehicles after 10,000 miles - 25p per mile
- Motorcycles - 24p per mile

#### **Working from home**

To be used where the taxpayer works for 25 hours or more a month from home.

- 25 to 50 hours a month - £10 per month
- 51 to 100 hours a month - £18 per month
- 101 and more a month - £26 per month

#### **Living at business premises**

A small number of businesses use their business premises as their home, e.g. a guesthouse, bed and breakfast or small care home. Under simplified expenses, the taxpayer calculates the total expenses for the premises, then uses the flat rates below to subtract an amount for personal use of the premises, based on the number of people living on the premises, and claims the rest as business expenses.

- 1 person - £350 per month
- 2 people - £500 per month
- 3+ people - £650 per month

For example, a couple run a bed and breakfast and live there the entire year. Overall business premises expenses are £15,000.

Simplified expenses calculation:

Flat rate: 12 months x £500 per month = £6,000

The couple can claim can claim:

£15,000 - £6,000 = £9,000

Further information on simplified expenses can be found on the HMRC



Wealth Management

*HMRC have updated guidance on registering a client trust to clarify which types of trust must be registered and the deadlines for registering*



Bureau Outsourcing



Wills and Trusts

website.

## HMRC update trust registration guidance

HMRC have updated guidance on registering a client trust to clarify which types of trust must be registered and the deadlines for registering.

The online guidance - Register your client's trust - explains how tax agents with client trusts with a tax liability can register online. The guidance has recently been updated to show the types of trust that must be registered and the deadlines for doing so.

The guidance refers to an 'express trust', which, broadly, is an arrangement where there is a clear and expressed intention to create a trust. It is usually created by a written document (a trust deed).

- An express trust must be registered whether the client is a UK resident or non-UK resident.
- A UK resident express trust must be registered where there is a tax liability for any of the relevant taxes for any trust income or assets.
- A non-UK resident express trust must be registered where there is a tax liability for any of the relevant taxes after the trust receives UK source income or has UK assets.
- Pension schemes set up as an express trust on HMRC's Trust Registration Service (TRS) need not be registered if they are already registered under the Manage and Register Pension Schemes or Pension Schemes Online services.

Registration deadlines for each tax a trust might be liable to are as follows:

- New liability to capital gains tax or income tax - 5 October
- Existing liability to capital gains tax or income tax - 31 January
- New liability to inheritance tax with capital gains tax or income tax - 5 October
- Inheritance tax without capital gains tax or income tax - 31 January
- Land and buildings Transaction Tax (in Scotland)- 31 January
- Stamp Duty Land Tax - 31 January
- Stamp Duty Reserve Tax or Stamp Duty - 31 January

### Examples

A trust has a new tax liability for income tax in 2018/19 must be registered by 5 October 2019.

A trust has a tax liability for Stamp Duty Land Tax in 2018/19 must be registered by 31 January 2020.

### Penalties

The lead trustee may have to pay a penalty if they do not register the trust before the registration deadline.

If they do not register or update the information, and cannot show HMRC that they took reasonable steps to do so, the penalties are:

- £100 for registering up to 3 months after the deadline
- £200 for registering between 3 to 6 months after the deadline
- £300 or 5% of the total tax liability in the relevant year (whichever is higher) for registering more than 6 months after the deadline



*The lead trustee may have to pay a penalty if they do not register the trust before the registration deadline.*



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Penalties will not be issued automatically and will be reviewed on a case by case basis.

HMRC will also take into account that tax year 2017/18 is the first year that trustees and agents have had to meet the new registration obligations.



### Finance Bill 2018-19

Measures to help taxi drivers to buy cleaner vehicles, remove barriers for investment in the oil and gas industry, and tackle tax avoidance using profit fragmentation are just some of the key policies that will be legislated for in the Finance Bill 2018-19, which was published in draft on 6 July 2018.

Under the Government's new timetable, the draft legislation has been published now for consultation purposes until 31 August 2018. It will become Finance Act 2019, when it receives Royal Assent in March 2019, so the new law can take effect from 1 April 2019 or a later date.

The draft provisions could of course be subject to changes announced in the Budget in November 2018, or as a result of representations made during the consultation period.

HMRC have published a list of supporting documents for the Bill, which groups together the draft provisions, explanatory note and the technical note for each policy change.



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### August questions and answers

**Q. As a landlord with several rental properties, is there anything I should be considering to help mitigate the impact of the restrictions on mortgage interest relief?**

A. Restrictions on the amount of income tax relief certain landlords can obtain on residential property finance costs (such as mortgage interest) are currently being phased in (over four years starting from 6 April 2017).

Deductions for finance costs related to residential property will be restricted as follows:

- in 2017/18, the deduction from property income is restricted to 75% of the finance costs;
- in 2018/19, the restriction is 50%;
- in 2019/20, the restriction is 25%; and
- from 2020/21 onwards, no such finance costs incurred by a landlord will be allowed as a deduction.

In order to mitigate the impact of these restrictions, you may wish to consider the following actions:

- legally transferring some of your rental income to someone else (for example, a spouse or civil partner);
- reducing your borrowings, which in turn will reduce future interest payments;
- incorporating your property business; or
- turning your rental property into qualifying furnished holiday lettings (the restrictions do not apply to this type of property business).

Professional and legal advice is of course, strongly recommended before making any changes.





**Q. I am considering buying an all-electric vehicle, which I would use to travel to and from work. If my employer installs a charging point at work, will this be a benefit-in-kind for tax purposes?**

A. Where an employer provides facilities for charging their employees' all-electric or plug-in hybrid vehicles at the workplace, this is currently treated as a taxable benefit-in-kind subject to income tax for employees and employer Class 1A National Insurance contributions.

However, the government announced in Autumn Budget 2017 that it would introduce an exemption to remove any income tax or NIC liability for charging electric vehicles at work with effect from 6 April 2018. The draft legislation is contained in Finance Bill 2018-19 and is under consultation until 31 August 2018.

There is already an exemption for the provision of charging facilities which applies to taxable cars and vans.



**Q. My company borrowed money from another private company, but the loan has now been written off because the lender company has been dissolved. What are the tax implications of this write-off?**

A. A company will have a trading loan relationship, as a borrower, if it entered into the loan relationship because of its trade. So, for example, a loan taken out to purchase machinery for a manufacturing trade, or to finance an expansion of its trade, will be a trading loan relationship.

Debits and credits arising from a trading loan relationship for an accounting period, are

- treated as receipts and expenses of the trade, and
- taken into account in computing profits or losses of the trade for that period.

The legislation provides that any debit may be deducted in the computation of trading profits, regardless of whether it relates to capital or income or would otherwise be disallowed by CTA 2009, s 54 (the 'wholly and exclusively' rule).

In most cases, if the companies are connected, there will be no tax implications for your company. However, if the companies are not connected, your company will be subject to tax for the amount of the write-off.

For further guidance on the loan relationship rules for connected parties, see the HMRC Corporate Finance Manual at CFM35320.



**August key tax dates**

- 2** - Deadline for PAYE settlement agreement for 2017/18
- 19/22** - PAYE/NIC, student loan and CIS deductions due for month to 5/8/2018



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