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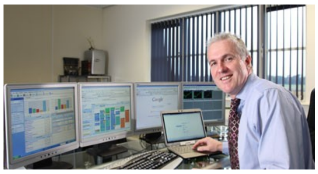
LG News



September 2019

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Inside this issue:

Employers must plan ahead for EA restriction

The Employment Allowance (EA) is a valuable relief, particularly for small businesses as it potentially cuts the business's national insurance contributions (NIC) bill by allowing a pre-set annual amount to be offset against PAYE NIC costs. The current limit is £3,000, and it is widely available to most employers. However, from April 2020 the allowance is being restricted to smaller businesses with an NIC bill of less than £100,000 in the previous tax year.

Current claims

Most employers with a liability to pay employer (secondary) NIC are eligible to claim the EA, including:

- sole traders, partnerships and companies

- charities and those with charitable status such as schools, academies and universities

- community amateur sports clubs (CASCs)

- employers of care or support workers

Certain types of business are ineligible to claim the EA deduction, including:

- personal service companies (PSCs) and managed service companies (MSCs) which are subject to the intermediaries' legislation (IR35). Where there is a deemed payment of employment income, the EA is not available against any employer NICs that arise on the deemed payment. However, the allowance is still available where the company has employees in its own right.

- single director companies. A restriction was introduced from 6 April 2016 providing that where the only employee paid above the secondary NIC threshold is also a director of the company, the allowance is not available. The restriction can apply in a company which has two or more directors but where only one of those directors is on the payroll and there are no other employees.

Future claims

From 6 April 2020, access to the EA will be limited to businesses and charities with an employer NIC bill below £100,000. At present, around 1.1 million employers claim the EA and the government estimates that around 93% of these will continue to be eligible once the restriction takes effect, with many paying no employer NICs at all.

How to claim

EA is generally delivered by the employer through standard payroll software and HMRC's real time information (RTI) system. However, it isn't given automatically and must be claimed. Claiming is very straight forward - the employer simply signifies his intention to claim by completing the 'yes/no' indicator just once. Although, ideally, the claim should be made at the start of the tax year, it can be made at any time in the year.

The employer will then offset the allowance against each monthly Class 1 secondary NICs payment that is due to be made to HMRC until the allowance is fully claimed or the tax year ends.

It is worthwhile checking that the EA has been utilised where possible. If a claim is made too late in a tax year to set the whole allowance against the employers' NIC liability, the employer may apply to HMRC for a refund.

For most businesses, it will be clear whether they will be affected by the forthcoming restriction on EA. However, for those on the cusp of £100,000 in 2019/20, then the timing of, say, bonuses in that year could determine entitlement in the payroll for April 2020.

Tax cuts coming for zero emissions vehicles

Significant changes to the tax rules governing zero emissions company cars will take effect from 6 April 2020, potentially making an electric car a more attractive option.

The tax rules for calculating the taxable benefit arising on a car are not changing - this will still be calculated (broadly) using the car's full manufacturer's published UK list price multiplied by the 'appropriate percentage', which can be found by reference to the car's CO2 emissions level. This calculation gives the taxable value of the car benefit. The employee pays income tax on the final figure at his appropriate tax rate (e.g. 20% for basic rate taxpayers; 40% for higher rate taxpayers). This formula means that in general terms, the lower the C02 emissions of the car, the lower the resulting tax charge will be.

Significant changes to the tax rules governing zero emissions company cars will take effect from 6 April 2020

For 2019-20, the appropriate percentage for cars (whether fully electric or not) is 16% for those emitting 50g/km CO2 or below, and 19% for those emitting CO2 of between 51 and 75g/km. This means that the taxable benefit arising on a zero emissions car costing, say £30,000 is £4,800, with tax payable of £960 for a basic rate taxpayer.

From April 2020, new ULEV rates will take effect cars with CO2 emissions below 50g/km the most tax-efficient for company car drivers. In summary, five new bandings are being introduced for full and/or part electric cars (hybrids). Fully electric (zero emissions) cars will attract an appropriate percentage of just 2%. This means that the tax benefit arising on an electric car costing say, £30,000 will be just £600. The resulting tax payable by a basic rate taxpayer will be £120 a year.

For cars emitting CO2 of between 1 and 50g/km, the appropriate percentage will depend on the car's electric range figure:

- 130 miles or more - 2%
- 70 - 129 miles - 5%
- 40-69 miles - 8%
- 30-39 miles - 12%
- Less than 30 miles -14%

ULEVs with CO2 emissions of between 50g-74g/km CO2 will be on a graduated scale from 15% to 19% (as is currently the case, diesel-only vehicles will continue to attract a further 4% surcharge) as follows:

CO2 emissions

- 51 to 54g/km 15%
- 55 to 59g/km 16%
- 60 to 64g/km 17%
- 65 to 69g/km 18%
- 70 to 74g/km 19%
- 75 or more 20%

Plus 1% per 5g/km

Up to a maximum 37%

Clean air all-electric cars will plummet to 2% under the new company car tax incentives from April 2020 - the incentives in the new tax bands are clearly designed to encourage ULEVs as a company car driver's car of choice.

Parking for rent?

Finding a parking space in a town centre or near to the station is often frustratingly limited. So, if you have a driveway, field or land that can be utilised for parking, you may well have an excellent opportunity to earn some extra tax-free income.

Two new allowances - each set at £1,000 - were introduced from 6 April 2017, one for trading income and one for property income. The allowances are available in addition to the personal allowance.

If you rent out property - including say, as driveway or land, and your income from it is less than £1,000 or less in the tax year, there will be no tax to pay, and no need to inform HMRC about it - it will be totally exempt for tax purposes.

Example

George lives near to the train station which is popular for the commute into the nearest large town. He has a large drive which has parking for two cars. He provides parking for commuters and charges £20 per week.

During the 2019/20 tax year, George earns £980 from parking. He is a full-time working employee and his personal allowance is fully used up against his salary. He has no other income from property or elsewhere.

As the income from letting out his drive is less than £1,000, the whole amount is tax-free and does not need to be reported to HMRC.

Note: If George had made a loss, it would have been beneficial not to claim the allowance, so the loss could be carried forward for offset against any future property income.

Where property income exceeds £1,000 in the tax year, the taxpayer has two choices:

- deduct the £1,000 allowance from the receipts and pay tax on the excess; or

- work out the profit or loss in the normal way.

The most beneficial option will depend on the level of the expenses.

If income is greater than deductible expenses, but the expenses are less than £1,000, it will be beneficial to claim the property allowance and pay tax to the extent that income exceeds £1,000. If expenses are less than £1,000, the best result will be obtained by working out the profit in the usual way, deducting allowable expenses from receipts.

Example

Helen owns a paddock close to a stately home which is open to the public during the Summer months. She provides overflow parking for the stately home as and when it is needed. In 2019/20, she earns £4,800 from parking receipts, and incurs expenses of £860.

If Helen calculates her profit in the usual way, her taxable profit will be £3,940 (£4,800 - £860). However, if she claims the property allowance, her taxable profit will only be £3,800 (£4,800 - £1,000). Claiming the allowance is therefore beneficial.

The report shows that HMRC raised £627.98bn of tax revenues during 2018-19, an increase of £22.1bn (3.6%) on 2017-18.

HMRC 2018-19 Annual report published

The National Audit Office has published a report on HMRC's 2018-19 accounts. The report shows that HMRC raised £627.98bn of tax revenues during 2018-19, an increase of £22.1bn (3.6%) on 2017-18. Of this total, around £250bn was paid in PAYE and National Insurance.

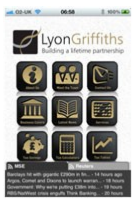
Currently, around 5.7m small businesses represent more than 95% of businesses in the UK. These businesses paid £115bn in corporation tax, VAT and other taxes during 2018-19. Small businesses are defined as having a turnover below £10m and fewer than 20 employees. At the other end of the scale, large businesses, of which there are around 2,000 (broadly defined as having a turnover exceeding £200m or £2bn in assets), were responsible for paying taxes of £135bn.

HMRC's operating costs for the year were £4bn, which represents around half a penny for every £1 of tax revenue raised. The UK's tax gap the difference between tax that should be paid and what is actually paid was 5.6% in 2017-18 an increase of 0.1% from 2016-17.

The report shows that £40.1bn of revenue collected was paid out in benefits and credits.

There has been an increased focus on helping people pay their tax quickly and easily online. According to the report, 19 million people have signed up to Personal Tax Accounts (PTAs) and 93.5% of self-assessment returns were completed online. With regards to Making Tax Digital for Business, HMRC have launched the new mandated service for digital record keeping and for filing VAT returns online. More than 93,000 businesses signed up for the pilot during 2018-19. MTD was officially launched on 1 April 2019, and sign ups had increased to over 500,000 by the start of July 2019.

HMRC are currently facing the huge, complex task of preparing for the UK leaving the EU. The Department currently has around 5,400 full-time equivalent employees working on Brexit preparations, building the customs, VAT and excise systems the UK will need and preparing taxpayers for leaving the EU, with or without a deal.



Tax Solutions

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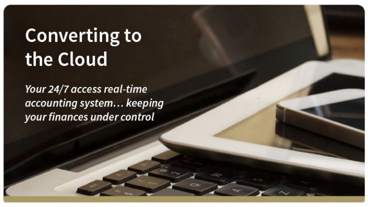

Download our guide "Converting to the Cloud" from our website

September questions and answers

Q. I am a qualified chiropractor and I have been running my own business for many years. I would now like to specialise in a particular area and have enrolled on a university course to obtain the relevant qualification. The cost is around £18,000 per annum and the course is three years in duration, during which time I intend to continue working part-time. Is the cost of the course deductible for tax purposes?

A. Expenditure incurred by the owner of a business on training courses for themselves is revenue expenditure if the course merely updates existing expertise or knowledge. Expenditure on a course which provides new expertise or knowledge is capital. HMRC accept that 'the line between the two may often be difficult to draw' and they may require further information from you to make a decision. HMRC's Business Income Manual provides further guidance at paragraph BIM35660.

Q. What is the statutory time limit for keeping VAT records?

A. Generally, you must keep all your business records for VAT purposes for at least six years (or ten years the trader uses the HMRC VAT mini-one-stop-shop (VAT MOSS)). Records that you use for other tax purposes may need to be kept for longer periods. VAT records may be kept on paper, electronically or as part of a software program (eg book-keeping software) - but whichever method is used, the records must be accurate, complete and readable. HMRC can visit businesses to inspect record-keeping and impose penalties if the records are not in order. If the six-year rule causes serious storage problems or undue expense, or you need advice on records for other types of tax, then you should consult HMRC's VAT general enquiries helpline. HMRC may be able to allow you to keep some records for a shorter period.

Q. I own a buy-to-let property, which has a mortgage of £50,000 owing on it. I bought the property for £100,000 and it is currently worth around £150,000. What will be the capital gains tax implications if I pay off the mortgage and then sell the property?

A. The gross capital gain will be the difference between the sale price the purchase price, ie £50,000 (£150,000 - £100,000). A mortgage is not relevant to a capital gains computation unless, in rare circumstances, where a purchaser takes over responsibility for a mortgage (see HMRC's Capital Gains Tax manual at paragraph cg12706 for further information).

September key tax dates

19/22 - PAYE/NIC, student loan and CIS deductions due for month to 5/9/2019

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