viewpoint tax news

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**Welcome to the October monthly tax newsletter. These newsletters are designed to keep you informed of the latest tax issues.**

**We hope you enjoy reading the newsletter; remember, we are here to help you so please contact us if you need further information on any of the topics covered.**

# REPORTING TO HMRC EVERY QUARTER TO GO AHEAD IN 2018

The Government and HMRC remain committed to the "Making Tax Digital" project with more information being sent online to HM Revenue and Customs (HMRC) by employers, pension funds, banks and other institutions.

The next big step will be the introduction of quarterly reporting of income and expenditure by businesses and landlords from 2018. HMRC are currently consulting on a number of proposals to make radical changes to facilitate the introduction of the new regime. We accountants have serious concerns about the timescale; HMRC say "you will not need an accountant to fill out the information on the new system." They are expecting businesses to use new Apps on their Smart phones and Tablets to transmit their data to HMRC.

## OVERVIEW OF MAIN PROPOSALS

Small businesses and landlords will be encouraged to prepare their accounts on a cash basis with the threshold for using the basis significantly increased.

The current basis period rules for unincorporated businesses to be reformed.

A new voluntary Pay As You Go (PAYG) system to be introduced to help businesses budget for their tax payments.

## EXTENDING THE CASH BASIS

About 1 million small businesses currently prepare their accounts on a cash basis. The present threshold for using the cash basis is the VAT registration limit £83,000 and HMRC are consulting on the limit being significantly increased, possibly double the VAT threshold of £166,000, the current limit for leaving the scheme.

## WHAT IS THE CASH BASIS?

The current cash basis for preparing accounts was introduced as a simplification measure from 6 April 2013. Using the cash basis means that businesses merely need to calculate their profits based on receipts and payments.

There are no adjustments at the end of each period for accrued expenses and amounts prepaid, and no adjustment for stock or bad debts at the end of the period.

Another simplification is that the cost of equipment bought for the business, except for motor cars, can be deducted directly in arriving at the profit without the need for a capital allowances claim. One disadvantage of the current cash basis rules is that interest on money borrowed to finance the business is limited to £500 a year and a similar restriction is likely to be incorporated into the new rules.

## PROPOSALS TO SIMPLIFY BASIS PERIODS

The current basis period rules are complex, and many unincorporated business owners find them difficult to comprehend. Where the business makes up accounts to a date other than 5 April the accounts and profits have to be made to "fit" into the tax year. There are particular problems at the commencement of trading as some of the initial profits are taxed twice and the "overlap" profits are then deducted on cessation.

One proposal is for businesses to prepare accounts for a period that aligns with the tax year (6 April - 5 April) or even prepare accounts for shorter periods such as each quarter to align with their VAT quarters and submissions to HMRC.

## PAY AS YOU GO

Another complication of the current self-assessment regime is that where tax has not been collected under PAYE or at source, primarily on self-employed profits and rental income, the taxpayer is required to make payments on account.

These payments on account are due on 31 January and 31 July based on 50% of the outstanding liability for the previous tax year with a balancing payment the following 31 January.

This can make budgeting cash flow for the self-employed and landlords difficult for some to manage.

The government is proposing to introduce a new voluntary Pay as You Go (PAYG) system for the self-employed and landlords to make payments towards their income tax, national insurance and VAT liabilities monthly with a reconciliation at the end of the year.

Many of these proposals may have significant implications for your business. We will update you on further details once we see the outcome of the various consultations. We can then discuss how we can assist you with your quarterly obligations.

# CHANGES TO FARMERS AVERAGING

From 2016/17 onwards farmers now have the option to smooth out their profits over two or five tax years as the result of a change in Finance Act 2016.

Farmers' and market gardeners' profits often fluctuate wildly from one year to the next and the tax rules for many years have allowed them to average their profits in order to smooth out those fluctuations.

It is expected that there could be even greater fluctuations as the result of changes to subsidies

# PAYING 20% INSTEAD OF 28% ON THE SALE OF PROPERTY

The latest Finance Act has retained the 28% CGT rate for sales of residential property, whereas the general rate was reduced to 20% for higher rate taxpayers.

It has been suggested that it is possible to reduce the rate from 28% to 20% by deferring the gain temporarily into qualifying EIS company shares.

The tax planning opportunity arises because reinvesting the property gain in Enterprise Investment Scheme (EIS) company shares defers the gain until the shares are sold when the gain comes back into charge at the general rate of CGT, currently 20% for a higher rate taxpayer.

There is no minimum holding period for EIS deferral relief, however where the investor is seeking income tax relief and CGT exemption on the sale of the shares they need to be an unconnected investor and retain the EIS shares for at least 3 years.

The reinvestment in EIS shares must take place during the period of 12 months before to 36 months after the date of disposal of the property.

Shares in EIS qualifying companies are risky investments and specialist investment advice should be taken. There is also a chance that HMRC may block this tax planning strategy in the future. **Contact us for further assistance.**

# ADVISORY FUEL RATE FOR COMPANY CARS

These are the suggested reimbursement rates for employees' private mileage using their company car from 1 September 2016. Where there has been a change the previous rate is shown in brackets.

| ENGINE SIZE | PETROL | DIESEL | LPG |
|---|---|---|---|
| 1400cc | 10p | | 7p |
| 1600cc or less | | 9p (8p) | |
| 1401cc to 2000cc | 13p (12p) | | 9p (8p) |
| 1601cc to 2000cc | | 10p | |
| Over 2000xx | 20p (19p) | 12p (11p) | 13p |

You can continue to use the previous rates for up to 1 month from the date the new rates apply.

# VAT IMPLICATIONS OF EMPLOYEE MILEAGE CLAIMS

Note that where employers reimburse their employees 45p per mile for using their own cars they are able to reclaim input VAT based on the amounts shown in the table.

In the case of a 1600cc diesel car that would be 1.5 pence per mile. (9p x 20/120). Such a claim needs to be supported by a receipt from the filling station.

# TAX DIARY OF MAIN EVENTS

| DATE | WHAT'S DUE |
|---|---|
| 1st October | Corporation tax for year to 31/12/15 |
| 5th October | Deadline for notifying HMRC of chargeability for 2015/16 if not within Self-Assessment and receive income or gains on which tax is due |
| 19th October | PAYE & NIC deductions, and CIS return and tax, for month to 5/10/16 (due 22 October if you pay electronically) |
| 1st November | Corporation tax for year to 31/01/16 |
| 19th November | PAYE & NIC deductions, and CIS return and tax, for month to 5/11/16 (due 22 November if you pay electronically) |

## FURTHER INFORMATION OR ADVICE

If you would like further information or advice about any of the issues raised in this newsletter or any other tax-related matter then Steve Bird would be delighted to hear from you.

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