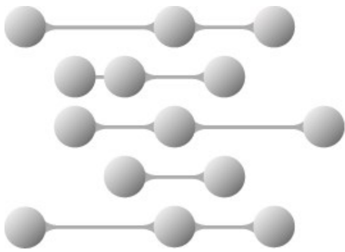
Tax Briefing



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Simple assessments have arrived

The self assessment tax return system has been with us for over twenty years now and it is certainly not simple. Pensioners in particular find that they are required to submit a tax return each year to report their various different sources of pension and savings income and to pay a small amount of tax.

To avoid sending tax returns to such individuals, HMRC has started to issue what it calls a 'simple assessment'. This is a tax calculation, with a tax bill attached. The simple assessment arrives as a letter and we should receive a copy as your tax agent. The letter will state when the tax is payable, normally by 31 January 2018.

The simple assessment represents HMRC's view of what your income is and it may contain estimated figures, so it is important to check the tax calculation against documents such as bank statements and P60 forms. If you don't agree with the figures on the simple assessment, you can query them with HMRC or we can do this for you.

The taxpayers who are due to receive a simple assessment for 2016-17 are:

- those who started to draw the state pension in 2016-17 and who have total income just over their personal allowance for that year; and
- those taxed under PAYE who have an income tax liability for 2016-17 which can't be collected through their PAYE code, perhaps because it is too large.

In future years many more taxpayers will receive a simple assessment instead of a tax return. However, if you have variable amounts of income, such as insurance policy gains or rental income, the simple assessment procedure will not be appropriate. In that case it is best to stay within the self assessment system so that you can report your income, expenses and gains accurately every year on a tax return.

NIC for the self-employed

For reasons lost in the mists of time, self-employed individuals pay two types of national insurance contributions (NIC): Class 2 and Class 4.

Class 2 is charged at £148.20 per year (for 2017-18), and is only payable if your annual profits are £6,025 or more. Class 4 NIC is calculated as 9% of your profits up to £45,000, plus 2% of profits above that threshold, but you pay it only if your annual profits are £8,164 or more. »

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» Class 2 NIC provides a year's credit towards the state pension and entitlement to certain other state benefits; Class 4 NIC provides you with no credits or entitlements at all.

The Government had planned to combine Classes 2 and 4 NIC from 6 April 2018 and to attach the entitlement rights to the combined NIC charge. This would simplify NIC for self-employed people. However, those with very small profits would no longer be able to pay the low level of Class 2 NIC on a voluntary basis to secure state benefit entitlements for a year.

The Government has now decided to postpone the NIC merger until 6 April 2019. This means that you will carry on paying Class 2 and Class 4 NIC for 2018-19 through your self assessment tax bill as now.

Property allowance

When you let one or more furnished rooms in your own home, the rental income can be free of tax if it is covered by rent-a-room relief, currently capped at £7,500 per year. But this relief only applies where the room is used as residential accommodation.

If the room is used as an office, for storage or perhaps as a garage or parking space on your drive, rent-a-room relief does not apply. In those cases, the rental income can now be tax free if it does not exceed £1,000 per year and the conditions for this new property income allowance apply.

You can't use the property income allowance to boost the tax-free rent from residential accommodation to £8,500 per year, as the allowance can't apply if rent-a-room does.

Where your non-residential let brings in more than £1,000, you can choose to deduct the allowance from your gross rents or to calculate the taxable rental income deducting allowable expenses, but ignoring the allowance. When you use the property allowance you can't also deduct expenses.

Where the rent is paid by your own company, or by a company that employs you or a family member, you can't use the property allowance against that income.

Money laundering regulations

Many categories of business must register and be supervised under the money laundering regulations (MLR). This includes all accountants, estate agents, currency exchangers, bill payment providers, trust or company service providers, and high value dealers (HVD).

HVD businesses are those who receive cash payments of €10,000 or more for goods acquired in a single transaction, or who pay cash for goods worth €10,000 or more. As the pound is now almost at parity with the euro, those who make a sale at around £10,000 or more where the customer pays in cash, even over several instalments, are now within the MLR.

Those who are not supervised for MLR by a professional organisation must be supervised by HMRC. The application fee is £100, plus an annual fee of £115. An additional registration fee applies to each premises; this increased to £130 (from £115) on 1 December 2017.

Key personnel in HVD businesses, estate agents, and accountancy firms need to pass an approval test from 1 November 2017, which checks for relevant criminal convictions. This non-refundable charge is set at £40 per person.

People who own or run money service businesses, trust or company service providers must pass a series of checks collectively known as the 'fit and proper persons test'. The fee for this test is a one-off £100 per person. The range of people drawn into the fit and proper persons test is quite extensive, covering any director or officer, as well as senior managers and anyone who in effect directs the operation of the business.

Budget for your tax bills

Many company owners take a small salary and variable amounts of dividends from their company each year. Previously, the dividends came with a tax credit, so there was no further tax to pay as long as total income didn't stray into the higher tax bands.

However, since 6 April 2016 dividends over £5,000 have been subject to dividend tax at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for those in the highest tax band. If you receive more than £5,000 of dividends in the year, you will have to pay dividend tax for 2016-17. Some of that tax may have been collected through your PAYE code, but any balance outstanding will be payable by 31 January 2018.

We will let you know the exact amount of tax due when we complete your tax return, but you should be prepared to pay some tax in January. You can continue to pay the dividend tax through your PAYE code, but only if you have a high enough salary to support those tax deductions.

Where the tax due for 2016-17 is over £1,000, you will also be asked to make payments on account of the estimated tax due for 2017-18. That means a payment due on 31 January 2018 equivalent to half the amount paid for 2016-17 and another equal amount due on 31 July 2018. These on-account payments can be reduced if you expect your total income for 2017-18 to be less than it was in 2016-17.

We can help you budget for the tax due, but we need to talk through your individual circumstances.

Paying HMRC

If you don't pay your tax on time you will be charged interest at 3% and possibly a penalty. But the methods you can use to pay tax are being restricted, as HMRC is nudging people to pay electronically.

To pay by cheque you need an appropriate pre-printed payslip, whether you pay at a bank counter or send the cheque directly. HMRC does not officially accept cheques in the post for payment of corporation tax, although it will bank any cheques it receives. You can currently pay a tax bill of up to £10,000 at a Post Office counter, but this service is being withdrawn from 15 December 2017.

A current alternative is to use a credit or debit card online. There is a fee for paying by credit card. However, HMRC is withdrawing the facility to pay tax using a personal credit card from 13 January 2018. You will still be able to pay tax bills with any debit card or with a corporate credit card. HMRC would prefer you to pay via a bank transfer made by BACS, CHAPS or the faster payment service.

Try to avoid using your company's credit card to pay your personal tax bills, as this will create a loan owed by you to your company. Where such a loan exceeds £10,000, a benefit in kind charge arises. If the loan is not repaid within nine months of the end of the accounting period in which it arose, the company must pay additional corporation tax.

State pension: when to stop

In order to receive the full flat-rate state pension (currently £159.55 per week) you need to accrue 35 years of national insurance (NI) credits. It's easy to find out how many NI credit years you already have: log in to your online personal tax account on gov.uk/personal-tax-account.

If you contracted out of the state pension for any significant period in the past, your predicted state pension entitlement will be smaller, but the maximum pension can be obtained by paying NI for additional years.

Where you have already racked-up 35 full years of NI credits and your pension prediction says you qualify for the full pension, why would you pay more? You may want to protect your entitlement to unemployment support, maternity or sick pay, but if you work for yourself those state benefits are largely irrelevant.

Most directors of their own companies pay themselves just enough salary to get an NI credit, but don't actually pay any NI. If you don't need the NI credits, you could stop paying yourself a salary.

How to fight an NRCGT penalty

Taxpayers who live abroad may sell UK property. Before 6 April 2015 any gains they made would have escaped UK tax. Now such non-resident property owners must pay non-resident capital gains tax (NRCGT) on gains made on UK residential property, but not (yet) on gains made from commercial property.

The gain or loss made by a non-resident owner must be reported on an NRCGT return, submitted online to HMRC within 30 days of the completion of the contract. This tight deadline has caught out many taxpayers, especially for sales in 2015-16 when the reporting rules were not widely understood.

The NRCGT return must be submitted even if the taxpayer is also required to submit a UK self assessment tax return, which would include a report of the gain. Where the property was previously the taxpayer's own home, the gain may be subject to tax reliefs so no tax is payable, but the NRCGT return must still be submitted with 30 days.

If the NRCGT return is late, the normal late filing penalties apply, which can mean penalties of £1,300 can rack up before the taxpayer is aware they are late with reporting the disposal. If you have received such a penalty, you can challenge it.

A recent case decided that it was not reasonable for the taxpayer to be expected to read an obscure publication about the NRCGT return posted on HMRC's website on 6 April 2015. HMRC had made no effort to inform taxpayers or tax agents about the new form and the new filing deadline.

If you have received a penalty for not submitting the NRCGT form on time we can help you appeal, on the basis that you had a reasonable excuse for lateness.

Making tax digital: VAT first

The objective of the Making Tax Digital (MTD) project is to get businesses to record their accounting transactions digitally through accounting software and to use that software to report summary totals to HMRC each quarter. As VAT-registered businesses already submit VAT returns online, normally quarterly, the Government has decided that MTD reporting should start with VAT.

For periods beginning on and after 1 April 2019, VAT-registered businesses with turnover at or above the VAT registration threshold (£85,000), will be required to use accounting software to submit the figures reported on each VAT return to HMRC. This will mean a change in practice for most businesses, as 88% currently take figures from their spreadsheets or accounting system and type the amounts manually into HMRC's web-based online VAT form.

Under MTD the VAT figures must flow directly from the accounting software, although it may be possible to have software that reads data from a spreadsheet.

Businesses who have voluntarily registered for VAT, as their turnover is under the VAT threshold, will not be required to enter the MTD reporting regime in April 2019. The MTD reporting will also be optional for those who are registered for VAT in the UK as non-resident traders and who have turnover under the VAT threshold.

There may be particular issues to overcome for VAT groups who need to combine data from several companies to submit on one VAT return and for businesses who need to adjust their accounting figures to accommodate VAT rules such as for partial exemption, capital goods and margin schemes.

Let's talk about how we can work together to crack this MTD nut. It will be a case of using the software that best suits your business circumstances.