

# Tax Briefing



Summer 2016

## Larsen & Co Chartered Accountants

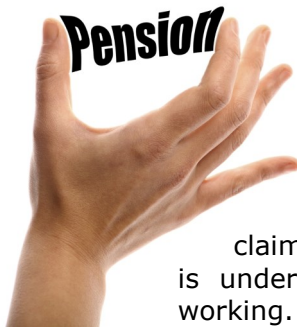
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### Maximising your state pension

To receive the full state pension you need to build up 35 qualifying years of national insurance contributions (NIC) or to receive NI credits. If you have at least 10 qualifying years but less than 35 you will receive some state pension, but not the full amount (currently £155.65 per week).



The actual amount of your pension will also depend on whether you were contracted out of the second state pension and paid into a private pension instead.

Contracting out is not possible after 6 April 2016.

You are credited with NIC when you earn above a minimum weekly rate (£112 for 2016-17). NI credits are added to your NI account when you claim child benefit, the child is under 12 and you are not working. If another member of your family is looking after the child while you work, you can request that your NI credits may be transferred to that person.

It is possible to make up for missed years by paying volun-

tary Class 3 contributions. Alternatively, if you are self-employed you can pay Class 2 NIC for restricted periods.

If you reached state pension age before 6 April 2016 and are already in receipt of a state pension, you can boost its value by up to £25 per week by paying voluntary Class 3A NIC. The exact amount you need to pay to get a further £1 per week of pension depends on your age. The top-up amount must be paid before 5 April 2017.

We can answer your questions about paying voluntary NIC, and help you budget for retirement.

### Letting holiday cottages

Many farms and landed estates include cottages which are let as furnished holiday accommodation. In the unpredictable British summer, such lettings can frequently turn a loss rather than a profit.

If you make a loss from your farm, that loss can be set against your other income in the same or the previous tax

year, as long as the farm is run on a commercial basis. The use of farming losses against other income may be blocked if you don't make a profit from the farm every six years.

When you make a loss from your holi-



day cottages the law is not so flexible. That loss can't be set against your other income, such as from farming, even if the cottages are on the same farm. The holiday accommodation loss must be carried forward to set against future profits from the same holiday lettings business.

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## P11D or no P11D - reporting

Employee benefits and expenses need to be reported for the 2015-16 tax year on forms P11D or P9D, by 6 July 2016. A P11D(b) must be submitted to report the Class 1A NIC due on the benefits provided.

If there is no Class 1A NIC to pay and you have received a form P11D(b), you should return that form completed as 'nil'. You can also tell HMRC no P11Ds are due using a structured online email form or we

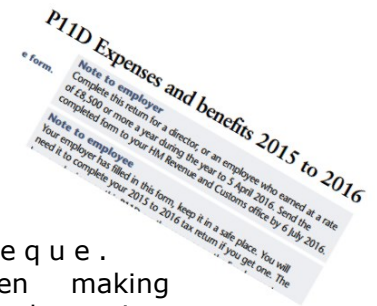
can do this for you. Alternatively, you make the 'no P11Ds' declaration using the HMRC PAYE online service.

If you use the free Basic PAYE tools software you will have to use one of the above methods to inform HMRC as there the box that said 'no P11Ds due' has been removed.

Where Class 1A NIC is due it must be paid by 22 July 2016, or by 19 July if you pay by

cheque.

When making an electronic payment for Class 1A NIC the 13 character accounts office reference should be used with '1613' tagged on the end. The '13' tells HMRC that this is a payment for Class 1A NIC.



## Employee expenses

The tax system has been simplified from 6 April 2016. Now if you reimburse your employees for valid business expenses those amounts don't have to be reported after the year end on a form P11D.

This simplification also applies to allowances paid to employees for the cost of meals taken while on business trips, and the mileage for those journeys. The meal allowances range from £5 to £25 depending on the time spent travelling. The mileage allowance is the

same as has been used for years: 45p per mile, or 25p for miles in excess of 10,000 in one year. Different rates apply for company cars.



As an employer you should periodically check that a random selection of your employees has actually incurred some expenditure if they have claimed a meal allowance. A receipt is not necessarily required, but some contemporaneous record would be needed.

If you want to pay your employees different rates for meal allowances, you can agree a special scale with HMRC. We can help you do that.

To keep life simple use the scale rates for meals taken while travelling on business, but keep the receipts to show that some expense has been incurred. Mileage records should always be kept for business journeys, together with a note of the destination and reason for each journey, to prove it was business related.

## VAT returns must tie up to accounts

The sales reported on your quarterly VAT returns should add up to the turnover in your accounts for the whole year.

It's important to do this reconciliation of VAT returns to accounts figures at least once per year, as that is exactly what HMRC's computer will do. If the computer spots a difference it will alert a tax inspector to issue an assessment for the VAT due on any apparently missing turnover.

If the VAT returns report higher sales than the accounts, an indication that the sales have

been over-stated and too much VAT has been paid, HMRC won't repay that VAT without a claim.

There are several reasons why the sales reported in your accounts may be higher than the total from your quarterly VAT returns. Some of your turnover



may be exempt from VAT, or outside the scope of VAT if the sales are to businesses in other countries. We can help you explain any differences to HMRC, should they ask.

However, it is essential that you retain copies of your VAT returns. Although HMRC insists that all VAT returns are submitted online, you can only access copies of VAT returns submitted in the last fifteen months, no more. Don't forget to print out your VAT returns once they have been submitted!

## No SDLT supplement on granny flats

Since 1 April 2016 when you buy a residential property you may need to pay a 3% Stamp Duty Land Tax (SDLT) supplement on the value of the property. This supplement isn't due if you are replacing your main home. But the supplement is due on the entire purchase price if you acquire a property which comprises two residences or dwellings.

Where a property has an annexe which can be occupied independently from the main home, such as a 'granny flat', the SDLT supplement could potentially apply. This is currently the case

even if the whole property is defined on a single set of deeds and the annexe can't be sold separately from the main property.

The Government has been alerted to this problem and will amend the new SDLT rules as they pass through Parliament this summer. The SDLT supplement won't apply to a house with an annexe which can't be sold separately and is not worth more than one third of the main property.



In the meantime, if you have paid the SDLT supplement on a property which is to replace your main home, you can apply for a refund of SDLT from HMRC.

Properties in Scotland are subject to Land and Buildings Transaction Tax (LBTT), which also has a 3% supplement for second homes. Be aware that the LBTT rules are different from the SDLT supplement rules.

## Applying for CIS gross payment status

Businesses of a reasonable size operating in the construction industry need to apply for and keep CIS gross payment status in order to be paid by their business customers without deduction of tax.



The good news is that from April 2016 the rules for meeting the tax compliance requirement of the gross payment status test have been relaxed. Now the business has only to:

- file all the monthly CIS returns due
- file the tax return for the business (income tax or corporation tax)
- pay the CIS tax and PAYE due to HMRC
- meet all requests by HMRC for the supply of accounts and other information about the business.

The previous tests to obtain gross payment status were very onerous. The business could fail

the compliance test if it was late with more than three monthly CIS returns or with more than one tax payment for the business. This led to many businesses losing their CIS gross payment status for silly reasons, such as underpaying tax by tiny amounts or sending in PAYE returns a day late.

If you want to try for gross payment status but were put off by the requirements, give it another go as your business may now qualify.

## Employment allowance for one-person companies

More good news for small businesses: the employment allowance has been increased to £3,000 per year. This allowance can be set against the employer's Class 1 NIC payable on employees' and directors' pay.

The bad news is that the employment allowance is no longer available to companies where the only employee in the year is a director of that company. To break this 'one employee' condition you may decide to employ a family member for a few hours.

The second employee doesn't have to be a director of the company. However, the HMRC guidance for one-person companies specifies that the second employee must be paid above the NIC secondary threshold (£156 per week for 2016-17).

However, the regulations don't mention a minimum employment period or a minimum level of income. HMRC have read far



more into the regulations than is in the law and as a result they're imposing conditions by guidance rather than by regulation.

lation.

If your company wants to continue to qualify for the employment allowance in 2016-17 the only requirement it has to meet is that it has two or more paid earners for at least one period in the tax year (which may be as short as a week).



## When can VAT be reclaimed?

As a VAT-registered trader you can reclaim VAT you incur on goods and services to be used for the purpose of making business sales which are subject to VAT. Goods or services used for non-business activities, or for generating VAT-exempt sales, can't be included in a VAT claim, unless the partial exemption rules apply.

HMRC are increasingly questioning whether costly purchases are used for a purpose that generates VATable sales and thus whether the VAT can be reclaimed.

Recently they have attempted to block the repayment of VAT paid on assets acquired before the VAT registration date. VAT can be reclaimed if the asset was acquired within four years of, and is still in use at, the VAT registration date.

HMRC may also attempt to block VAT paid on the acquisition of rights, such as entitlements under the single farm payment scheme or farm basic payment scheme. Such rights are part of the overheads of a farming business and a legitimate business expense on which VAT can be reclaimed.

If HMRC challenge your claim for VAT repayment, we can help argue your case.



## Investors' relief

This new relief will reduce the top rate of CGT payable on the disposal of shares in trading companies from 20% to 10%. But to achieve that tax reduction the shareholder must

- hold the shares for a continuous period of three years (minimum)
- not be an employee or officer of the company or connected

with such an employee or officer

- not receive value exceeding £1,000 from the company in a four-year period that starts twelve months before the shares were issued.

In addition the shares must be newly issued to the shareholder on or after 17 March 2016 and disposed of after 5 April 2019.

It seems that investors' relief will be limited to people previously completely unconnected with the company: so-called 'angel investors'. The detailed rules will also prevent those investors from taking any guiding role within the company such as a non-executive director, if they want to retain the tax reduction.



## When a company car is a benefit

As a general rule, if you provide your employee with goods or services and they pay the full market value for those items, there is no taxable benefit for the employee.

This rule could work to the employee's advantage where the actual cost of providing a benefit is less than its taxable value. This can happen with company cars and certain other benefits, where the taxable cash equivalent is calculated using specific charging rules. In such cases the employee would be better off by paying the market price to receive the

benefit than by paying tax on that benefit.

In a recent case Apollo Fuels Ltd leased cars to its employees at exactly the cost an unconnected party would pay for the same car under the same lease terms. HMRC wanted to tax those employees as if they had the use of a company car. However, the courts decided that, as the lease was a fair bargain made at market value, there was no taxable benefit for the employees.



This was too good to last. The law will be

changed to ensure that other employees can't side-step tax on company cars, vans, accommodation or loans. From 6 April 2016 the specific charging rules for those benefits will apply, even where the employee pays an open market price to receive the service or use of the asset.

There is an exception where the employer's normal business involves hiring cars or vans to the public. If an employee leases a vehicle on the same terms and cost as a member of the public, the vehicle is treated as not being made available by means of his employment, so no taxable benefit applies.