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TAX MATTERS

August 2018 inside this issue...

Crossing borders: new rules for UK property transactions

Following significant changes to the property tax regime, there are new rules which affect the cross-border purchase of property.

In Scotland, Stamp Duty Land Tax (SDLT) was replaced by the Land and Buildings Transaction Tax (LBTT) for purchases made on or after 1 April 2015. In Wales, SDLT was replaced by the Land Transaction Tax (LTT) for purchases on or after 1 April 2018.

The changes mean that in some cases, the purchase of land and property may now qualify as a *'cross-border'* transaction, in which case special rules will apply. The co-existence of these different property tax regimes within the UK means that a property transaction may now incur liability to more than one tax.

This situation could apply where a single property, comprising land on both sides of the English-Scottish or English-Welsh border, is purchased – for example, a farm which straddles both sides of the border.

Liability to multiple taxes could also arise where there is a *'multiple property transaction'*. This could apply where there is a single agreed amount of consideration for the purchase of two or more property interests in different UK tax jurisdictions – whether as a single transaction or a number of connected transactions.

So, a multiple tax liability could arise where a purchaser acquires a business including three shops (one in Wales, one in Scotland, and one in England, for example), or where a holiday accommodation business, comprising properties on both sides of the Scottish border, is purchased.

In either of these eventualities, the total consideration must be divided or apportioned on a just and reasonable basis, to determine the appropriate consideration for the part within each UK tax jurisdiction. As with any tax matter, it is open to the relevant tax authority – HMRC, the Welsh Revenue Authority (WRA) or Revenue Scotland (RS) – to challenge any return made, or to enquire into the basis on which apportionment was made.

Example

A farm in Monmouthshire comprising 20 fields, a farmhouse, a bungalow and agricultural buildings is being sold. Nine fields are wholly in England, nine wholly in Wales, and two in both England and Wales. Here apportionment would need to take into account where the buildings are located and the nature of the buildings, as well as any parts of the land that may be more valuable because of location, access, use or development (such as field drainage).

Where the consideration (as apportioned) is more than the limit for notification to the relevant tax authority, a tax return will be needed. So, potentially up to three tax returns may be needed – for SDLT, LBTT and LTT – with payment being made to three different tax authorities.

This is a complex area of taxation. We can advise on all of your tax and property requirements.

Please contact us for further information and advice.

Making Tax Digital: where are we now?

The government's landmark Making Tax Digital (MTD) for business initiative is set to take effect from 1 April 2019, beginning with MTD for VAT. Here, we take a look at the latest position, and consider the recent delay to some of HMRC's new digital services.

MTD for business: an overview

The MTD for business initiative was originally set to be implemented between 2018 and 2020 – however, concerns were raised in regard to the pace and the scale of the changes, and a revised timetable for the introduction of the initiative was put forward.

Under this timetable, beginning from 1 April 2019 businesses with a turnover above the VAT registration threshold (currently £85,000) will be required to keep digital records for VAT purposes and submit VAT returns to HMRC using MTD functional compatible software. If a business's turnover subsequently falls below the VAT registration threshold, the MTD requirement will remain.

VAT returns must be calculated and submitted to HMRC using an Application Programming Interface (API), and submission can be from software, bridging software or API-enabled spreadsheets.

Keeping digital records and making quarterly updates will not be compulsory for taxes other than VAT before April 2020. Since April 2018, HMRC has been live piloting MTD for VAT.

HMRC anticipates that there will be a one-year 'soft-landing' period when penalties for incorrect bookkeeping under the initiative will not apply.

A business can choose to submit VAT information more frequently than the VAT return obligations require.

Delays to aspects of MTD

HMRC recently announced that it would be redefining its 'priorities', in order to increase its resources for dealing with Brexit. Consequently, the roll-out of some aspects of MTD has been delayed.

Personal Tax Accounts

Personal Tax Accounts (PTAs) – digital tax accounts (DTAs) for individuals – have already been created by HMRC. PTAs have been pre-populated with existing information by HMRC, and allow individuals to update their financial details, communicate with HMRC, and use real-time technology to review their tax affairs. Those wishing to register for a PTA can do so by visiting: **www.gov.uk/personal-tax-account**.

However, further planned developments to PTAs will now not be made, with HMRC revealing that additional digital services in this area will only be developed where they 'reduce phone or postal contact', or otherwise deliver 'significant savings'.

Simple Assessment

Under Simple Assessment, the government has the power to make an 'assessment of income tax or capital gains tax (CGT) liability' for certain taxpayers, without the individual being required to complete a self assessment tax return. HMRC will be able to assess an individual's tax liability on the basis of the information it holds on that person.

There are currently only two groups of taxpayers to which Simple Assessment applies and HMRC has confirmed that there will now be 'halted progress' in this area.

Real-time tax code changes

In April 2017, HMRC began to use PAYE information in order to make in-year changes to tax codes in real-time. However, the Revenue has confirmed that progress in this area will be 'halted for the time being'.

Is MTD for VAT affected?

HMRC has emphasised that MTD for VAT remains 'on track' to commence in April 2019. The creation of a single digital account for all business customers will now happen 'at a slower pace' than previously intended, but the delays will not affect the delivery of MTD for VAT.

MTD represents a fundamental change to the way in which businesses keep their records. As your accountants, we can keep you updated on the requirements.

Taxpayer beware: HMRC warns over tax refund scams

HMRC recently issued a warning over the latest tax refund scam to affect taxpayers.

Fraudsters are currently using emails and SMS messages to target individuals by promising them a tax rebate and tricking them into disclosing their personal and banking details. However, HMRC has confirmed that it will only ever inform taxpayers of any tax refunds by post or through the employer's payroll. Any emails, text messages or voicemail messages you receive informing you of a refund are fraudulent, and should be reported.

Staying vigilant

HMRC has warned that many of these emails and texts contain links to websites that steal personal information, and has advised individuals not to reply to such messages, click on any links or download any attachments.

Criminals are known to take advantage of important events in HMRC's calendar, such as the end of the financial year, an approaching self assessment deadline and the issuing of tax refunds to start sending out phishing emails and texts.

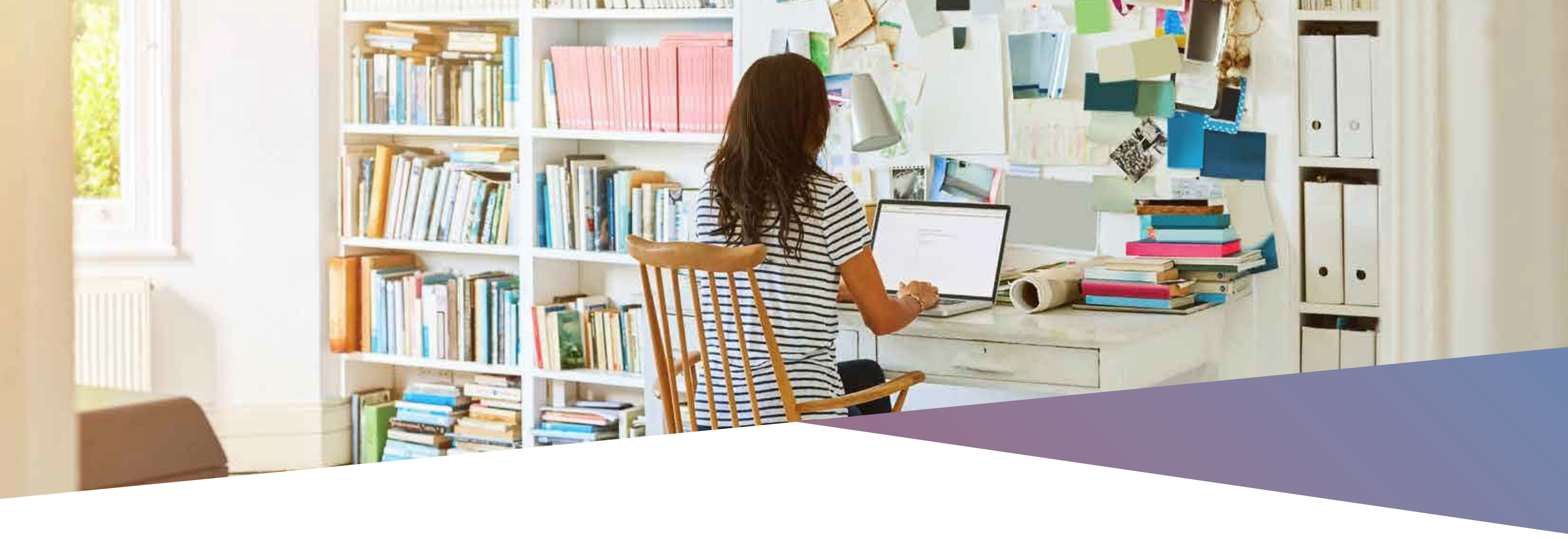
HMRC is currently processing tax refunds for tax returns covering the period 6 April 2017 to 5 April 2018. If a genuine tax refund is due, a letter showing your tax calculation and details on how to get your refund will be sent by post between the months of June and October. If you have not paid enough tax, HMRC will again send details of your tax calculations and instructions on how to make this payment in a letter by post. This can take the form of a P800 or a Simple Assessment letter.

Dealing with a scam

Guidance on how to deal with tax refund scams has been issued by HMRC, advising customers to:

- **Recognise the signs** – genuine organisations will never ask you for your PIN, password or bank details
- **Stay safe** – do not follow any links or download any attachments. Never give out your personal details or reply to any messages you were not expecting
- **Take action** – forward any suspicious emails to **phishing@hmrc.gsi.gov.uk** and questionable texts to 60599.

Additional information on recognising and reporting a scam can be found on the gov.uk website.



Where the heart is? Considering the tax implications of homeworking

Homeworking has grown in popularity in recent years, with research revealing that as many as 1.6 million individuals regularly worked from home in 2017. Here we examine some of the tax implications of homeworking.

Determining your employment status

It is important to determine your employment status for tax purposes, as the tax rules can differ considerably. Categories of employment status include workers, employees, the self-employed and contractors. Here, we focus on the tax implications of homeworking for self-employed individuals and employees.

Homeworking and the self-employed

Self-employed individuals can claim tax deductions for expenses that are incurred ‘wholly and exclusively’ for the purposes of their trade or business. Those who use their home as a workplace are able to claim tax relief – however, expenses may need to be apportioned.

The self-employed can claim for utilities such as heating and electricity, as well as mortgage interest or rent, and a range of other resources, including use of the internet and a telephone. It is important to note, however, that allowable expenses only apply to business costs – if you use an item or a resource for personal reasons, relief cannot be claimed.

In relation to the cost of equipment, self-employed individuals can claim tax relief under the capital allowances system. Reliefs for equipment and supplies used at home are available on the business proportion of the assets.

Employees working from home

Employees who perform all or part of their job from their home are able to claim specific reliefs and allowances. They cannot, however, claim tax relief if they have voluntarily chosen to work from home.

Employees can only claim for supplies and items related to their work (for example, the extra costs of electricity and heating for their workspace), and cannot claim for resources which are used both in the course of doing business and in their personal life, such as rent or access to broadband. Employers may choose to pay their employees up to £4 per week in order to cover any additional costs that may arise as a result of working from home.

Tax relief for equipment
As for self-employed homeworkers, businesses are able to claim capital allowances under the Annual Investment Allowance (AIA) for costs associated with supplying equipment to homeworking employees. There will be no taxable benefit on the employee, provided that the private use of business assets is insignificant. Employers may wish to draw up a policy to outline that the provision of any equipment to the employee is for work purposes only.

Tax relief for travel purposes
HMRC guidance outlines that the availability of tax relief for travel expenses is unaffected by whether or not an employee’s home is also their workplace. It also suggests that travel expenses from an employee’s home to a permanent workplace will only be eligible for tax relief if the journey ‘qualifies as travel in the performance of the duties of the employment’.

However, HMRC also states that, where an employee performs ‘substantive duties’ at home as an ‘objective requirement’ of the job, it may accept the employee’s home as a workplace for the purposes of the travel in the performance of the duties rule. In such cases, employees are entitled to claim tax relief to cover the costs of travelling from home to other workplaces.

Employees who work from home are also able to claim tax relief on expenses incurred as a result of travel between home and a temporary workplace.

We can help you to obtain any tax relief you may be entitled to – contact us for more information.

Tax Round-up

OTS publishes review into simplifying the taxation of savings income

The Office of Tax Simplification (OTS) recently published a detailed review into the taxation of savings income.

The OTS's stated aim was to review the application of the tax system to savings and investment income, and highlight ways in which any 'real complexities' can be removed.

Within the report, nine areas for further development were outlined, including:

- reviewing the range of savings rates and allowances, and the interactions between them
- creating a 'personal tax roadmap' to clearly outline the government's aims for personal taxation
- examining ways in which ISAs can be simplified.

The OTS stated that the UK tax system 'works well for most savers', but that misunderstandings remain.

Commenting on the review, Paul Morton, Tax Director at the OTS, said: 'This is the first broad review of its type into the application of the tax system to savings and investment income. It seeks to identify ways to remove some of the real complexities in the system and help taxpayers understand their position.'

AAT states inheritance tax is 'unnecessarily complicated'

The Association of Accounting Technicians (AAT) has stated that inheritance tax (IHT) is 'unnecessarily complicated' and 'widely misunderstood'.

Responding to a review of the tax by the Office of Tax Simplification (OTS), the AAT said that several IHT exemptions 'could be scrapped'. It argues that certain exemptions, such as gifts on marriage and gifts to political parties, are reliefs that the general public are 'largely unaware of', and should therefore be abolished.

However, the AAT did state that the current nil-rate band should 'stay the same'. Previously, some experts had called for the nil-rate band to rise from its current level of £325,000, but the AAT argues that 'there are no sound economic reasons' to increase it.

Commenting on the matter, Phil Hall, Head of Public Affairs and Public Policy at the AAT, said: 'The simplest means of removing complexity around IHT would be to scrap it and rely solely on capital gains tax (CGT) as they have done in Australia since the 1970s.

'This would be far simpler, and some might argue, a more meritocratic approach to taxation.'

We can help with all of your tax planning needs – simply contact us for more information.

Tax Tip

Self-employed? Topping up your NICs

If you are self-employed, there is still time to top up your national insurance contributions (NICs) by making Class 2 payments, which can be a significantly cheaper option than making Class 3 voluntary contributions.

Class 2 NICs were due to be abolished in April 2018, but the measure has been delayed until 6 April 2019, meaning that those with earnings from self-employment below the small profits threshold can still pay Class 2 contributions voluntarily in order to top up their state pension.

Reminders for your diary

September 2018

1 New Advisory Fuel Rates (AFR) for company car users apply from today.

19 PAYE, Student loan and CIS deductions are due for the month to 5 September 2018.

30 End of CT61 quarterly period.

October 2018

1 Due date for payment of Corporation Tax for period ended 31 December 2017.

5 Deadline for notifying HMRC of new sources of taxable income or gains or liability to the High Income Child Benefit Charge for 2017/18 if no tax return has been issued.

14 Due date for income tax for the CT61 quarter to 30 September 2018.

19 Tax and NICs due under a 2017/18 PAYE Settlement Agreement.

PAYE, Student loan and CIS deductions are due for the month to 5 October 2018.

PAYE quarterly payments are due for small employers for the pay periods 6 July 2018 to 5 October 2018.

31 Deadline for submitting 'paper' 2017/18 self assessment returns.

November 2018

2 Deadline for submitting P46(Car) for employees whose car/fuel benefits changed during the quarter to 5 October 2018.

19 PAYE, Student loan and CIS deductions are due for the month to 5 November 2018.