



# TAX BRIEFING

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CHARTERED ACCOUNTANTS



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## PAYING THE RIGHT NIC

**Y**our workforce may include people of all ages from school leavers to those past state pension age, with some working part time or holding down two jobs concurrently.

The national insurance contributions (NICs) payable differ, so it is important to get the calculations right.

Employers' NICs are not due on the wages of those aged under 21, or apprentices aged under 25, for wages up to £4,167 per month. However, employees' NICs are due if their pay exceeds £719 per month.

Those over state pension age do not pay employees' NICs on any of their wages, but employers' NICs must still be paid. State pension age is gradually increasing for both men and women, so the exact date a person achieves state pension age will vary according to the individual's date of birth. Check your payroll software records for the date on which an employee will reach

state pension age to ensure they do not overpay NICs.

An employee who holds two jobs may pay the maximum employees' NICs on their higher paid employment, in which case they should not pay NICs on their second job. Such individuals should apply for a deferral of NICs on their second employment as early in the tax year as possible.

Directors can determine their own pattern of pay and may receive a bonus if the company's results are good. To ensure they pay the right amount of NICs for the tax year the directors should be treated as having an annual pay period for NIC purposes.

## SELLING A LET PROPERTY

**M**any landlords are deciding to sell their residential properties.

From 6 April 2020 none of the interest and finance charges relating to those properties can be deducted from the rental income. Instead the landlord receives a tax credit equal to 20% of the interest to set against their income tax bill. Any gain you make from selling your residential property is taxed at 28% if you are a higher rate taxpayer, or at 18% if you are a basic rate taxpayer.

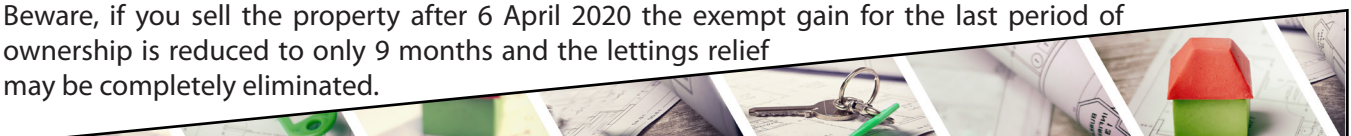
**As your former home was let you can also claim lettings relief which reduces the gain by up to £40,000**

However, you can deduct the following from the proceeds to calculate the taxable gain:

- solicitors' and estate agents' fees paid on the sale and purchase;
- cost of improvements you made to the property;
- stamp duty land tax (or Scottish or Welsh equivalents) paid on purchase; and
- your annual capital gains tax exemption (£12,000 for 2019-20).

If the property was ever your main home for tax purposes you can also eliminate the proportion of the gain which relates to the period during which you occupied it as your home, plus the gain relating to the last 18 months of ownership. As your former home was let you can also claim lettings relief which reduces the gain by up to £40,000.

Beware, if you sell the property after 6 April 2020 the exempt gain for the last period of ownership is reduced to only 9 months and the lettings relief may be completely eliminated.





## EMPLOYEE TRAVEL EXPENSES

**E**mployees travelling on business need to eat. Keeping track of expense claims for meals taken whilst working away from the office can be a total pain.

You can simplify matters by telling HMRC you will pay a standardised daily subsistence rate to your employees when they work out of the office.

These tax-free and NIC-free rates for business trips within the UK are easy to remember:

- £5 for leaving home earlier than usual before 6am;
- £5 for being away for at least 5 hours;
- £10 for being away for at least 10 hours; and
- £15 for finishing work later than usual after 8pm.

The employee is expected to purchase food or drink whilst working away but you do not have to check the

receipts before paying the standardised subsistence rate. You can of course reimburse the actual cost of a meal if it is supported by receipts.

When an employee travels overseas the receipt chasing can reach a new level of pain. Fortunately HMRC have drawn up standard subsistence and accommodation rates which you can use to reimburse the costs employees incur while travelling outside the UK.

There are no standardised rates for overnight accommodation within the UK; that must be paid according to the actual costs incurred.

## BEST START FOR NEW EMPLOYEES

Do you use the HMRC approved starter checklist when taking on new employees? This form is not optional; all new employees should complete it even if they present a completed form P45.

Page one of the starter checklist asks the individual to tick box A, B or C next to statements: this is my first job since claiming state benefits; only job; or second concurrent job or pension. If all choices are left blank, the employer should choose option C and the employee is given a PAYE code of OT/1.

**H**MRC are actively checking up on employers who are not using correct PAYE codes

That PAYE code means the employee is not given a personal allowance and will be over-taxed. HMRC may take some months to correct the PAYE code, during which the employee will be short of cash and thus unhappy. This does not help you retain staff. Please help your new employees to complete the starter checklist correctly as some people may not understand the language used.

Do you download any new PAYE codes from HMRC before each payroll run? Most PAYE codes are delivered electronically and you need to check using your payroll software whether new codes have been issued to your employees. Report to HMRC any oddities with PAYE codes, such as an incorrect name or NI number for an employee.

## HEALTHY STAFF ARE HAPPY STAFF

**I**t pays to look after your staff, including ensuring they get necessary treatment for injuries incurred whilst working.

However if you pay for physiotherapy to help with an injury which was not work-related this will be taxable benefit for the employee.

The tax rules relating to health treatments for employees are a confusing mess. Essentially, any health-related treatment provided to an employee and paid for by the employer is taxable unless it is:

- given whilst the employee is working overseas and the treatment is required to be given overseas;

- part of a package to allow an employee to return to work (capped at £500 per employee per year); or
- related to injuries or diseases resulting from the employee's work.

Treatment such as counselling for mental illnesses is included if the employer can demonstrate that the therapy is required solely because of a work-related trauma or stress.





## PREPARE FOR CHANGES TO IR35

The IR35 rules are designed to discourage avoidance of payroll taxes by organisations who engage workers through personal service companies (PSC)s or other intermediaries rather than taking them on to the payroll.

The IR35 rules were altered from 6 April 2017 for public sector contracts and they will change again for large and medium sized employers in the private sector from 6 April 2020. From then the operation of the IR35 rules should be standardised for larger engagers across the public and private sectors.

If you provide services through your own PSC or partnership you should review the working relationships with your customers, particularly for contracts expected to extend beyond 6 April 2020.

First, check whether your customer will have to apply the revised IR35 rules from 6 April 2020. If your customer's business is 'small' your relationship with that business will continue to be governed by the existing IR35 rules.

A 'small' business for this purpose is one which meets two or more of these criteria:

- annual turnover up to £10.2m;
- balance sheet total up to £5.1m; or
- no more than 50 employees.

When providing services to 'small' businesses, you must decide if

your contracts are caught by IR35, and if they are, your PSC may need to account for PAYE on a deemed salary payment to you at the end of the tax year.

If your customer is not 'small' it is your customer who must decide whether your contract is caught by IR35 after 6 April 2020. If it is, your customer will deduct income tax and NIC under PAYE from your invoice before paying the net amount to your PSC. You will not become an employee of your customer but you will be taxed as if you were.

## WINDING UP A COMPANY

If you have stopped trading through your own personal company and have no further use for it you could sell the shares or wind it up taking out any value as cash.

There is a limited market for second hand companies which do not hold any valuable assets, so winding up the company is probably the next best solution.

There are two way to do this: a formal liquidation or an informal dissolution when you simply apply for the company to be struck off the register at Companies House.

A licensed insolvency practitioner needs to be appointed to carry out a liquidation and their fee will be at least £1,500. However, all the surplus funds can be paid to you as a capital gain. If this is done within three years of the date the company stopped trading you may be eligible to claim entrepreneurs' relief, reducing the rate of tax payable on the gain to 10%.

All the conditions for entrepreneurs' relief need to be met for at least 24 months to the cessation of the trade, so we need to look closely at who held the shares during that period.

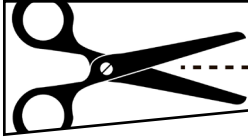
Using an informal dissolution up to £25,000 of value from the company can be treated as a capital gain. If the amount distributed on dissolution of the company is greater than £25,000, then the whole amount is taxed as if it were a dividend. You may wish to reduce the value in the company by paying out a dividend before the dissolution process starts.

Beware of starting up a similar business within two years of winding-up your company as that can result in all the value received on liquidation of the old company being taxed as dividends.

## MARRIAGE ALLOWANCE

The UK tax system is based on the independent taxation of each individual so it is difficult to reward couples for being married, but the marriage allowance attempts to do that. It is a transfer of 10% of the personal allowance from the partner who does not have sufficient income to use their full allowance (£12,500 for 2019-20) to their spouse or civil partner. The recipient of the marriage allowance must pay tax at no more than the basic rate of 20% (21% in Scotland).





When claimed, the marriage allowance is worth £250 for 2019-20. If you have claimed the marriage allowance for all years from its introduction in 2015-16 you will be £900 better off. The deadline for claiming the marriage allowance for 2015-16 is 5 April 2020.

You can claim it online: [www.gov.uk/apply-marriage-allowance](http://www.gov.uk/apply-marriage-allowance); by telephoning HMRC: 0300 200 3300; by writing a letter; or in a tax return. We can help you with this.

If you were widowed in the last four years, you can still claim the marriage allowance for years in which your partner was living from 6 April 2015 onwards.

## HOW TO SPLIT A BUSINESS

As the VAT registration threshold is to be frozen at £85,000 until at least April 2022, more businesses will be drawn into the VAT net simply by increasing their prices by inflation every year.

If you do not want to register for VAT you either have to keep your total sales low by working fewer hours or consider splitting the business into two entities, each with turnover under £85,000. Business splitting is legal but needs to be done correctly to be effective for VAT purposes.

First identify the separate products or services you supply and whether you provide them to different groups of customers. For example you may clean commercial buildings for business customers and domestic premises for non-business customers. The commercial cleaning services could be provided by a company and the domestic cleaning by a partnership. Although you control both entities, the back-office support must be managed carefully to ensure HMRC agree that two businesses exist in practice.

You should:

- set up separate bank accounts and insurance for each entity;
- purchase supplies through distinct orders in the name of each business; and
- make sure the correct business bank account is used to pay for the goods acquired and deposit sales income.

If both businesses operate from the same address, set up a formal lease agreement under which one business sublets part of the area to the other. If employees work for both businesses the costs should be charged across at the point one business lends the employee to the other.

## MTD: AVOID MUDDLES

If you believe the adverts, accounting software is really easy to operate - but that depends on it being set-up correctly.

When you use new software to submit VAT returns under MTD it must be configured for the particular circumstances of your business, for example:

- are you using the cash accounting scheme for VAT?
- if you use the VAT flat rate scheme (FRS), has the correct FRS percentage been picked within the software? or
- if bank-feeds are used does the software correctly code sales and purchases which are exempt, zero-rated or standard-rated for VAT?

Unless you are starting a new business with new software, the historical 'opening balances' will have to be typed into the new programme or read in automatically from the old software.

We suggest that you check a draft VAT return before attempting to submit it under MTD. We can help you with this.

If you have already submitted a VAT return under the MTD pilot it is not too late to check the figures. Penalties for mistakes in VAT returns can be up to 100% of the VAT underpaid and still apply if the return is submitted under MTD. If you have had a genuine problem with setting up your MTD software this may constitute a reasonable excuse for a mistake in reported figures but you must correct the error as soon as it is discovered.

Regulated by The Institute of Chartered Accountants of Scotland.