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Tax Matters

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Is it time to review your estate plan?

Planning to minimise the inheritance tax (IHT) due on your estate is always important, but the recent introduction of the residence nil-rate band (RNRB) means now could be the ideal time to review your existing plans.

What is the RNRB?

IHT is charged at 40% on estates worth in excess of the nil-rate band, which is currently £325,000. Married couples and registered civil partners can pass any unused nil-rate band on death to one another.

However, 6 April 2017 saw the introduction of an additional nil-rate band – the RNRB – which is intended to take the family home out of IHT for all but the wealthiest. The RNRB is set at £100,000 for deaths in 2017/18, rising to £125,000 in 2018/19, £150,000 in 2019/20, and £175,000 in 2020/21. It is then set to increase in line with the Consumer Prices Index from 2021/22 onwards.

The introduction of the RNRB means that up to £1 million of a married couple's estate could eventually be taken outside the scope of IHT if the full nil-rate bands (£325,000 + £175,000 x 2) are available to each spouse.

The RNRB is also available when a person downsizes or ceases to own a home on or after 8 July 2015 where assets of an equivalent value, up to the value of the RNRB, are passed on death to direct descendants.

It is important to note that the additional band can only be used in respect of one residential property, which does not have to be the main family home but must at some point have been a residence of the deceased.

There will also be a tapered withdrawal of the additional nil-rate band for estates with a net value of more than £2 million (at a withdrawal rate of £1 for every £2 over this threshold).

Reviewing your estate plan

It is always advisable to review your Will and planning strategies on a regular basis, but it is particularly pertinent following changes in your personal or family circumstances or significant new tax rules. The introduction of the RNRB is one such example.

The additional nil-rate band will only apply when a main residence is passed on death to one or more descendants (including a child, stepchild, adopted child or foster child) of the deceased and their descendants. In order to utilise the RNRB, you may need to review your Will to check that the property is being bequeathed to the correct beneficiaries. The home doesn't have to be specifically mentioned in the deceased's Will, as long as it has at some point been a residence of the deceased.

It is also important to review your Will where property has been left in trust, as certain types of trusts may not be eligible for the RNRB. This is a complicated area and we suggest that you consult an expert for further advice.

If downsizing is contemplated, special care is needed to include provisions in a Will which will satisfy the conditions of obtaining the additional band.

For more information on the RNRB or for advice on other tax-efficient estate planning strategies, please contact us.

Choosing the right VAT scheme for your business

There are a number of ways to account for VAT. While standard VAT accounting is used by many firms, small business owners may wish to consider the alternative schemes that are available. Choosing the most suitable option could save you a considerable amount of time and money.

Annual accounting scheme

Under the annual accounting scheme, businesses are only required to submit one VAT return per year. During the year, agreed monthly or quarterly payments are made based on an estimated liability for the year, with a balancing payment due with the return.

The scheme is available for most businesses that expect to have an annual tax-exclusive turnover of not more than £1,350,000. These businesses can join the scheme from the date they register for VAT. A business can leave the scheme voluntarily at any time by writing to HMRC, but it must leave once its annual taxable turnover exceeds £1,600,000.

Scheme advantages

- ✔ Submitting only one VAT return each year (rather than the four required under standard VAT accounting) could save a considerable amount of time and paperwork
- ✔ It may be easier to manage cashflow as the liability to be paid each month is known and certain
- ✔ There is an extra month to complete the VAT return and pay any outstanding tax

Potential disadvantages

- ✗ As interim payments are based on the previous year they may be higher than necessary, although it is possible to adjust these if the difference is significant

Cash accounting scheme

The cash accounting scheme enables businesses to account for VAT on the basis of cash received and paid, rather than on tax invoices issued and received. A business can join the scheme if there are reasonable grounds to believe that its annual turnover is not expected to exceed £1,350,000 in the next twelve months.

Scheme advantages

- ✔ As output tax (VAT charged by the business on its sales) is not due until payment of sales invoices is received, there may be a cashflow advantage. This is particularly beneficial for businesses with slow-paying customers
- ✔ There is automatic relief for bad debts: if a customer fails to pay then no output tax will be due

Potential disadvantages

- ✗ Input tax (VAT suffered on the goods and services purchased) cannot be recovered until suppliers' invoices are paid

Flat rate scheme

Under the flat rate scheme, the VAT due is calculated by applying a predetermined flat rate percentage (dictated by the trade sector), to the business turnover of the VAT period. The current trade sector rates range from 4% to 14.5%. There is a further 1% reduction on the normal rates for businesses in their first year of VAT registration. On 1 April 2017 the government introduced a new 16.5% rate for businesses with limited costs, such as many labour-only businesses. Following this, those using the flat rate scheme will need to decide if they are a 'limited cost trader' – please contact us if you would like assistance with this matter.

The flat rate scheme is only available to businesses that expect their VAT exclusive turnover in the next twelve months to be no more than £150,000 in taxable supplies. Businesses must leave the scheme when income in the last twelve months exceeds £230,000, unless this is due to a one-off transaction and income will fall below £191,500 in the following year. A business must also leave the scheme if there are reasonable grounds to believe that total income is likely to exceed £230,000 in the next 30 days.

Scheme advantages

- ✔ It saves time and simplifies record-keeping by removing the need to work out and record output and input tax when calculating the VAT due to HMRC
- ✔ The predetermined fixed-rate percentages are lower than the standard VAT rate

Potential disadvantages

- ✗ Turnover needs to be under £150,000
- ✗ Businesses that use the scheme cannot normally recover input tax or VAT on imports or acquisitions
- ✗ The scheme can be complex where a business buys and sells goods and/or services from outside the UK

Other schemes

There are also special schemes for retailers, as it is impractical for most retailers to maintain all the records required of a registered trader. The three standard VAT retail schemes are: the Point of Sale Scheme; the Apportionment Scheme; and the Direct Calculation Scheme. For more information and advice on these and the schemes available to certain other trades, please do contact us.

This article is intended as a basic introduction to some of the key VAT schemes. We can advise you on the most suitable option for your business.



Are you making the most of capital allowances?

Businesses looking to purchase capital equipment are able to claim tax relief in the form of capital allowances. Here we outline some of the key details.

What is the Annual Investment Allowance?

Businesses purchasing plant and machinery are able to make use of the Annual Investment Allowance (AIA), which allows the costs for equipment, machinery and business vehicles (excluding cars) to be deducted from your profits before tax. The maximum annual amount of the AIA is £200,000. The AIA applies to businesses of any size and most business structures, but there are provisions to prevent multiple claims.



Plant and machinery includes items such as machines, equipment, furniture, certain fixtures, computers and similar equipment you use in your business. However, certain items do not count as plant and machinery. These include buildings, land and structures, and items that you lease. There are special rules for cars and some specific 'environmentally friendly' equipment.

Enhanced Capital Allowances

In addition to the AIA, a 100% first year allowance is also available on energy-saving or environmentally friendly equipment. A separate Enhanced Capital Allowances (ECA) scheme is available for new electric and low carbon dioxide (CO_2) emission cars (up to 75 g/km – reducing to 50 g/km from April 2018) and new zero emissions goods vehicles (up to 31 March 2018 (corporates) or 5 April 2018 (others)). They also qualify for the 100% first year allowance.

Expenditure pooling

Where purchases exceed the AIA, a writing down allowance (WDA) is due on any excess in the same period. This WDA is currently set at a rate of 18%. This is the main rate pool and it is available on any expenditure incurred in the current period not covered by the AIA or not eligible for the AIA, as well as on any balance of expenditure remaining from earlier periods.

Certain expenditure on building fixtures, known as integral features (eg lighting, air conditioning, heating, etc) is only eligible for an 8% WDA so is allocated to a separate 'special rate pool', though integral features do qualify for the AIA.

Motor vehicle expenditure

With regard to capital allowances, special rules govern the treatment of expenditure on vehicles. Cars do not qualify for the AIA, but other specific types of vehicle are treated as pool, plant and machinery.

For business cars, a vehicle's level of CO_2 emissions plays a key role in its capital allowance treatment. New low emission cars acquired between 1/6 April 2015 and 31 March/5 April 2018 and not exceeding 75 g/km CO_2 emissions will be allocated to the main rate pool, and will be eligible for a 100% allowance. Vehicles not exceeding 130 g/km CO_2 emissions will also be allocated to the main rate pool, but will be eligible for an 18% WDA. Those that exceed 130 g/km CO_2 emissions will be allocated to the special rate pool, and will be eligible for an 8% WDA.

From April 2018, new capital allowance rules for cars are set to take effect.

How do I make a claim for capital allowances?

Businesses are required to make a claim for capital allowances through their tax return. Unincorporated businesses must make a claim within 12 months after the 31 January tax return filing deadline. Companies must ensure that their claim is made within two years of the end of the accounting period.

If you are considering investing in plant and machinery, please talk to us first as we can help to ensure that you time your purchase to receive the maximum tax benefit.

PAYE tax codes: the new real time system

HMRC recently unveiled a new policy of adjusting employee tax codes during the course of the tax year, in a bid to improve certainty and help ensure taxpayers pay the 'right amount' of tax.

Under the new system, HMRC will be using the information submitted by employers via Real Time Information (RTI), together with any changes made in an individual's Personal Tax Account, to make new adjustments to an individual's tax code. This will be done in-year, rather than waiting for the necessary changes to be made at a later point after the end of the tax year, as has previously been the case.

The government hopes that the new system will reduce the number of taxpayers who either end the tax year having paid too much tax, or receive an unexpected bill. According to HMRC statistics, a total of around eight million individuals overpay or underpay their tax every year, with overpayments accounting for two-thirds of this number.

Once HMRC is aware of a change in an individual's circumstances, it will issue a new tax code and will write to the employee regarding the change, with a copy notification being sent to the employer.

Unlike the previous system, under which it could take up to two years for an individual's tax account to be 'balanced' following an underpayment, HMRC believes that the changes will help more people to 'pay the right tax at the right time'.

The impact of the changes

Some employees will see an impact on their pay packets, as HMRC seeks to recover all of the tax due within the course of the current tax year. While employers may experience an increase in the number of tax codes they receive, and an increase in the volume of queries from employees relating to the changes, HMRC anticipates that there will be fewer queries relating to tax codes and payments in the long term.

Employers and employees are advised to ensure that HMRC is made aware of any changes in an individual's circumstances as soon as possible. Routine PAYE RTI submissions will continue as normal.

We can help with all aspects of PAYE. Please contact us for further advice and assistance.



Tax Round-up

Cash-based Lifetime ISA enters the market

The first cash-based Lifetime ISA recently entered the market, allowing adults under the age of 40 to put aside cash sums in order to save for their first home or their future retirement.

The Lifetime ISA was first introduced in April, but initially only share-based investments were available. A new cash Lifetime ISA has since been launched.

Under the scheme, savers aged between 18 and 39 can invest up to £4,000 a year and will receive a 25% bonus on contributions from the government up until their 50th birthday.

Both the tax-free savings and the government bonus can be used for a deposit for a first home in the UK worth up to £450,000 at any time from 12 months after first saving into the account.

Alternatively, the funds, including the government bonus, may be withdrawn from the Lifetime ISA from age 60 tax-free for any purpose. However, where the funds are withdrawn before the age of 60 the account holder will lose the government bonus (plus any interest or growth on this) and will be liable to pay a 5% surcharge.

New Welsh Land Transaction Tax receives Royal Assent

A new Land Transaction Tax (LTT) is set to replace Stamp Duty Land Tax (SDLT) in Wales, with effect from April 2018.



The legislation is similar to the existing UK SDLT legislation, and the new LTT will be payable by the purchaser when buying or leasing a building or land, in line with a series of set rates and bands.

Higher rates of tax will apply to purchases of additional residential properties, as is currently the case, but there are some additional rules.

The new LTT marks the latest step in the drive towards tax devolution, which has seen the introduction of the Land and Buildings Transaction Tax (LBTT) in Scotland, and the Scottish Rate of Income Tax.

The proposed rates and bands for the LTT are set to be announced by October 2017. The Welsh Revenue Authority (WRA) will be responsible for the collection and management of the LTT from April 2018.

Tax Tip

Ensure you are claiming tax-deductible expenses

Self-employed individuals are able to claim tax relief on part of their household expenses, which can include insurance, repairs and utilities.

If you often work away from your main place of business, you may also be able to claim for travel and accommodation costs: make sure that accurate records are kept, such as a log of business journeys.

However, you cannot claim business expenses for non-business driving or travel costs, fines or travel between your home and your place of work.

For more information on claiming tax-deductible expenses, please contact us.

Reminders for your Autumn diary

September

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

19 PAYE, Student loan and CIS deductions are due for month to 5 September 2017.

30 End of CT61 quarterly period.

October

1 Due date for payment of Corporation Tax for period ended 31 December 2016.

5 Deadline for notifying HMRC of new sources of taxable income or gains or liability to the High Income Child Benefit Charge for 2016/17 if no tax return has been issued.

14 Due date for income tax for the CT61 quarter to 30 September 2017.

19 Tax and NICs due under a 2016/17 PAYE Settlement Agreement.

PAYE, Student loan and CIS deductions are due for the month to 5 October 2017.

PAYE quarterly payments are due for small employers for the pay periods 6 July 2017 to 5 October 2017.

31 Deadline for submitting 'paper' 2016/17 self assessment returns.

November

2 Deadline for submitting P46 (Car) for employees whose car/fuel benefits changed during the quarter to 5 October 2017.

19 PAYE, Student loan and CIS deductions are due for the month to 5 November 2017.

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