Tax Briefing

Spring 2018

RZ Associates
incorporating Quick Tax
Chartered Accountants
Chartered Tax Advisors

RZ Associates Limited
Suite 4, Flexspace
Manchester Road
Bolton
BL3 2NZ

0161 255 2786

info@rzassociates.co.uk
www.rzassociates.co.uk

Paying your child from the business

You can pay your son or daughter out of your business, but they must do some real work for that money, work which is worth what you pay them. You can't pay over the odds for an office assistant just because the worker is your relative.

The work need not be performed at your business premises. Skills which could be used to promote your business online or to design marketing materials could be applied remotely, perhaps while

they are away at university. However, you need to be able to prove that adequate work was performed for the rewards. Where work is done in between studying and is not supervised, there needs to be an accurate record such as a timesheet. Alternatively, the individual could be paid according to output, such as for every leaflet designed or each customer query answered.

There are rules on how many hours a child aged under sixteen is legally allowed to work, during school term time and during the holidays. Where the pay is more than £113 per week, you must put it through the payroll, just as you would for any other employee.

NMW and directors

The national minimum wage (NMW) rates rise on 1 April 2018. Are you certain you know what pay rise you must give to employees and whether the directors should be included in those calculations?

The five NMW rates depend on each employee's age and whether they are on an approved apprenticeship scheme. The top rate for those aged 25 and over will rise from £7.50 to £7.83, up 4.4%.

Most directors of their own companies do not have to pay themselves the NMW. This is the case where the director does not have a contract of employment with the company and is effectively paid only for their role as an office holder.

Where the director does have an employment contract with the company, they will be treated as an employee for NMW purposes and the NMW should be paid for all the hours they work.

In a company which has a number of employees, good employment practice would be to require everyone to abide by the terms and conditions set out in the employment handbook and to sign a declaration on »

» that basis. Where the handbook sets out all the conditions, rights, responsibilities and duties of both employer and employee, the declaration will amount to an employment contract, so directors who sign it will have an employment contract.

If the company comes under scrutiny for NMW, HMRC will want to examine the calculation of pay for everyone on the payroll, including directors. The penalty for failing to pay the correct amount can be up to £20,000 per employee. The business will be included on the name and shame list of employers where the total underpayment of NMW is £100 or more, across the whole payroll.

This can all be avoided with care. Let's talk about the implications for your business.

Scottish income tax rates

Income tax for Scottish taxpayers is set to change significantly from 6 April 2018, as their earnings, pensions and profits will be subject to up to five rates of Scottish income tax.

The thresholds for various Scottish tax rates don't align with the thresholds for national insurance contributions (NIC). The resulting tax and NIC bands for 2018-19 are shown in the table. The effective rate between £100,000 and £123,700 arises due to the withdrawal of the personal allowance where income exceeds £100,000.

You are classified as a Scottish taxpayer if your main home is in Scotland, in which case you should have a PAYE code that starts with 'S'. If you are a Scottish taxpayer who is self-employed, you will pay the Scottish tax rates shown in the table plus NIC of 9% instead of 12%.

Income in band £	Scottish tax rates %	Class 1 NIC rates %	Total rate on band %
0 – 8,424	0	0	0
8,425 - 11,850	0	12	12
11,851 – 13,850	19	12	31
13,851 - 24,000	20	12	32
24,001 - 43,430	21	12	33
43,431 - 46,350	41	12	53
46,351 – 100,000	41	2	43
100,001 – 123,700	61.5	2	63.5
123,701 to 150,000	41	2	43
Over 150,000	46	2	48

Tax relief on pension contributions will continue to be given at 20%, even for Scottish taxpayers who pay tax at only 19%. Any additional tax relief at 21% or higher rates will have to be claimed in your tax return or by contacting HMRC.

Scottish taxpayers who receive significant amounts of dividends or interest in 2018-19 will have to reperform their tax calculations using the tax bands and rates which apply for the rest of the UK. Our tax return software will undertake that calculation for you on submission of your return.

Welsh land taxes

If you are about to buy a property in Wales, you need to consider the new land transaction tax (LTT) that comes into effect for all property deals which complete on or after 1 April 2018.

The LTT replaces stamp duty land tax (SDLT) and in general its rates are lower (see table). If you are purchasing a residential property for more than £400,000 or commercial property costing more than £1.1 million, you may save some tax if you complete before 1 April.

Residential property price £	LTT rate %	Additional property rate %
0 - 180,000	0%	3%
180,001 - 250,000	3.5%	6.5%
250,001 – 400,000	5%	8%
400,001 - 700,000	7.5%	10.5%
700,001 - 1.5m	10%	13%
Over 1.5m	12%	15%

There is no special exemption for first-time buyers, as the average amount paid for a first home in Wales is around £160,000 which falls within the zero-rate band. Individuals purchasing a second home for £40,000 or more will pay the additional property rate of LTT. Companies also pay the additional property rate on the purchase of residential properties for £40,000 or more.

Rent a room relief

This tax relief is designed to encourage people to let out a spare room to a lodger and hence increase the availability of low-cost accommodation. In fact, the relief can also cover short-term lets. If you let rooms in your own home by the night through sites such as Airbnb, the scheme can apply, even if the letting amounts to a bed and breakfast business.

The relief covers gross rental income of up to £7,500 per year from letting furnished residential accommodation in your own home. You must live in the same property as the let rooms, though the relief can apply to rent received when you let the whole house for short periods, perhaps while you are away on holiday. It can't apply to income you get from holiday lettings where you don't also occupy part of the same property nor can it apply to income from a buy-to-let not simultaneously occupied by the landlord.

You don't have to notify HMRC that you are claiming the relief if the gross rents received in the tax year don't exceed £7,500. If the gross rents exceed that figure you must choose whether to be taxed on the excess above £7,500 or on the actual profits from the letting (the gross rents less any allowable expenses).

Annual tax on enveloped dwellings

This tax, known as ATED, applies to residential properties owned by companies. It only came into effect on 1 April 2013 and was extended to properties worth over £500,000 from 1 April 2016.

Landlords who have transferred their residential property portfolios into companies need to be aware of the ATED. Where any of those properties was worth over £500,000 on the day the company completed the purchase, an ATED report is required and the tax may be due.

The first ATED charge is payable within 30 days of the completion date. For properties worth up to £1 million, the ATED is £3,500 for 2017-18, or a proportion relating to the part of the year for which the property was owned. The ATED charge for 2018-19 starts at £3,600 and is normally payable by 30 April 2018.

In most cases a relief can be claimed, notably where the property is let on a commercial basis to tenants who are not connected with the company. However, the relief must be claimed on the relief declaration return, which is also due within 30 days of the completion date or by 30 April within the tax year.

There are stiff penalties for late ATED returns, including relief declarations. One day's delay earns a £100 penalty and six months can generate penalties of up to £1,300 per form. As relief from the ATED is claimed in advance, you must be careful to report to HMRC if the conditions for the relief are later broken. For example, the relief will no longer apply if the tenants become connected with the main shareholder or with the company. An amended ATED return must be submitted within 30 days of the start of the next year, so by 30 April 2018 for a condition broken in 2017-18.

We can help you submit the ATED forms, which, from 1 April 2018, must be submitted online.

Check your PAYE code for interest

When you receive your PAYE code or tax computation, carefully check any amount of interest shown as received.

HMRC regularly receives details of interest paid by banks and building societies to individuals. In the past, it has used this information to check the amounts on tax returns. However, it is now inserting the actual interest receipts into tax computations (form P800), and simple assessments (form PA302).

HMRC is also using 2016-17 interest data as a proxy for the interest expected to be received in 2017-18 and 2018-19, and is amending PAYE codes (forms P2) accordingly. Interest on joint accounts should not be used but the fact that the account is held jointly may not have been reported accurately by the bank.

You won't pay tax on interest if it is covered by your personal savings allowance of £1,000 (£500 for higher rate taxpayers). Where you have little earned or pension income, your interest may be covered by your savings rate band of £5,000.

If you believe the figures in your PAYE code are incorrect you can ask for an amendment using your personal tax account; ask us how.

Gifts liable to IHT

It's not true that inheritance tax (IHT) is only due when you die. Capital gifts during your lifetime can be subject to IHT at the rate of 20%, unless the recipient is exempt or the gift is covered by a separate exemption. There are exemptions for gifts made to political parties, charities and housing associations and for gifts used for a national purpose or for the maintenance of historic buildings. Gifts which don't qualify for an exemption include those to hospitals which are not registered as a charity, those to charities which are registered outside the EU and those to political lobbying movements.

Lifetime gifts are not chargeable to IHT where they fall within your annual exemption of £3,000. If you don't use all this exemption in one tax year, you can roll-over the unused amount to the next year, but not beyond. Now is a good time to review the gifts you have made during the tax year.

Small gifts of up to £250 per person per annum are exempt; so are regular gifts which amount to normal expenditure out of your income. Your nil rate band of £325,000 can cover gifts made in the last seven years which are not specifically exempt.

Capital gifts over your available nil rate band are potentially subject to IHT; it largely depends on who has received the gift.

Avoid VAT penalties

As a VAT registered business, you have to do two things to avoid being charged a VAT penalty: pay your VAT on time and submit your VAT return on time. If you fail on either of those requirements twice in twelve months, you are put on the VAT equivalent of the naughty step, the surcharge. Businesses with turnover of £150,000 or more don't get that one-time free pass as they enter the surcharge period after just one late payment or late return filing.

The surcharge period is a serious lobster-pot, as once you are in you can't get out until you demonstrate a full twelve months of good behaviour. Any late payment or late filing within that twelve months means the surcharge period is extended for a further twelve months.

What's more, the penalties start racking up. The first missed deadline within the surcharge period generates a penalty of 2% of the late VAT, the second a 5% penalty, then 10%, and thereafter a painful 15% of the late-paid VAT. Even one day beyond the deadline means it's late. However, it is easy to overlook a small penalty charge, as (if your annual turnover is under £150,000) you won't receive a penalty bill for less than £400 until you reach the 10% penalty level.

The lesson to learn is: pay your VAT on time, every time.

VAT on rewards for crowdfunding

As an entrepreneur you may look to a crowdfunding site to raise money for a new product. Prospective investors are asked to commit to a set level of funding; in return they earn a package of rewards which expands with the level of funding. The VAT implications, however, can vary considerably.

HMRC treat the promise of rewards as a voucher for VAT purposes or sometimes as a pre-payment for goods or services. If the reward consists of one product, the treatment is simple: VAT is due when the investors hand over their money. However, when the reward package includes a number of items or services which carry different VAT rates (a 'multi-purpose voucher'), VAT is due when rewards are received.

The difference in VAT taxpoints (the relevant date) between a single product reward and a multi-purpose reward voucher can be a considerable time period. If your business has not already registered for VAT when it starts to receive money through crowdfunding, the package of rewards can determine when you must register and account for VAT.

Don't make VAT an afterthought: let us know your plans and we can discuss the implications in good time.