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HMRC are going phishing

HMRC needs to recoup some of the money that Chancellor Rishi Sunak has given, and continues to give, to UK businesses to help them through the Covid19 crisis. Unfortunately, this will mean an increase in investigations as they try to determine how much money has been fraudulently claimed. If you do receive a letter, telephone call or any form of correspondence from HMRC questioning your claim for furlough, SEISS, etc. please do not respond to them directly, make sure you get in touch with us first.

Furlough Scheme

The Government have changed the furlough scheme about seven times and have ended up going back to the original scheme which was implemented on 23 March 2020. This means that from 1 November 2020 you can now furlough your staff members who are not working and HMRC will refund you 80% of their gross wage, but you will be subject to the employers NIC and any pension payments. You can claim for people who cannot work at all or who are working reduced hours because of the problems caused by Covid-19. For claim periods starting on or after 1st November you can only claim for employees on a payroll submission made by the 30th October. If your staff were already on your payroll scheme at the 19th March 2020, then their furlough pay will be based on their 2019-20 pay rates. For other staff their payments will be based on the last pay period ending on or before 30th October 2020 or average earnings in this tax year if they work variable hours. The scheme will run until 31st March 2021 but will be reviewed in January.



RUGELEY
The Old Coach House
Horse Fair
Rugeley
WS15 2EL
01889 583211

UTTOXETER
The Old Bakehouse
Dove Walk
Uttoxeter
ST14 8EH
01889 562028

STONE
1st Floor Suite
Hampson Chambers
Stafford Street
Stone
ST15 8QW
01785 748740

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Selling or Recently Sold a Property?

HMRC are now requiring all individuals to declare and pay any capital gains tax due on the sale of residential properties within 30 calendar days from the completion (sale) date. They also require a full breakdown of the capital gains tax calculation. Failure to meet this 30-day deadline will result in a late filing penalty

(£100pp), as well as interest being charged if the tax remains unpaid after the 30-day deadline. Please note that it is only disposals that result in a Capital Gains Tax Liability that needs to be declared within the 30-day limit. If the amount of the gain is lower than the Annual Exempt Amount (currently £12,300) or the gain is nil then the 30 day filing is currently not required. However, it will need to be disclosed on your self-assessment tax return if you complete one.

Mortgage interest rate changes on residential properties in April 2020

Last year was HMRC's final transition year with regard to how much mortgage interest you can claim against your residential property income. With effect from April 2020, none of the mortgage interest is allowable as a deduction against property profits. The allowance is not lost, however, and instead, it is allowable as a tax reducer against the final liability. The relief is granted at the basic rate of 20%, therefore if you are a basic rate taxpayer this tax change will not affect your tax position, however, please be aware if you claim tax credits or child benefit this will increase your income and thus potentially your entitlement to the benefit.

As this restriction effectively increases property profits on the top line there is the risk of an individual straddling the higher rate tax band and if so will have to pay tax at 40% on some of your income.

It is important to note, this tax reducer cannot turn you into a tax repayable position, the most it can do, is reduce the liability to is nil.

An example with a higher rate taxpayer is shown below:

Property rent: £10,000

Repairs: -£2,000

Mortgage interest: -£6,000

Net income is therefore only £2,000, however, you will be taxed on £8,000.

£8,000 x 40% higher rate income tax: £3,200

Finance cost relief: £6,000 @ 20%: £1,200

Final liability with regard to the example above is £2,000 which in this case an effective tax rate of 100%.



VAT Reverse Charge

REVERSE CHARGE BEING INTRODUCED FOR BUILDERS

The reverse charge is a system for accounting for VAT whereby the customer charges themselves VAT, rather than the supplier charging VAT. The domestic reverse charge is mainly used to prevent fraud i.e. the supplier will charge VAT, be paid the VAT, and then it disappears before they declare it to HMRC. As the reverse charge makes it the customer's responsibility to account for VAT there is no opportunity for the supplier to disappear without paying the VAT to HMRC.

The CIS VAT domestic reverse charge measure

will apply to the supplies of construction work from 1 March 2021.

If you have projects that end after 1 March 2021 and include construction services then it's likely that the changes to VAT reverse charge invoicing will apply.

In any event, you should attempt to become familiar now with what is (and isn't) included under the reverse charge, and communicate with any contractors who regularly use you to ensure they also understand the requirement.

If enough people are interested we will run training sessions in February 2021.

Please contact us to register your interest.

Research and Development Claims

Research and Development are defined by HMRC as work carried out that seeks an advancement in the field of science or technology.

In order to qualify for R & D relief, the company will need to explain how each R & D project

- Has looked for an advance in science and/or technology
 - Has overcome an uncertainty
 - Could not be easily worked out by a professional in the same/similar field
- Research and Development projects can relate to both brand new products/processes/services or improvements to existing ones.

Most small and medium-sized companies:

- Turnover of fewer than 100 million Euros
- Balance Sheet less than 86 million Euros
- Employees less than 500

Will be eligible to claim an extra 130% of any qualifying costs to offset against their yearly profit, and thus reducing their corporation tax liability.

If the company has made a loss due to R & D, then they may be eligible to claim a tax credit of 14.5% of the surrendered loss.

The UK Government is keen for UK businesses to carry out Research and Development, hence the generous tax incentives, however, this does leave the scheme open to abuse and fraudulent claims.

Wynniatt-Husey Limited will be more than happy to prepare and submit the R & D claims to HMRC on behalf of our clients and we will be able to do this for a fraction of the costs that third party R & D "reclaim specialists" will charge. We have seen in the past third party R & D "reclaim specialists" fees are a percentage (usually 20-25%) of the tax savings they can make for the client, so they tend to grossly exaggerate the number of qualifying costs and eligible projects.

HMRC is cracking down on fraudulent claims so any claims made that cannot be backed up with sufficient evidence will result in any R & D tax savings/credits being paid back with interest and penalties charged on top.

Inside IR35 or Outside IR35?

From 6th April 2021, it will be our clients' responsibility to determine whether the 'Off-Payroll Working Rules' apply, i.e. is this assessment 'inside IR35'? You can refer to the HMRC guidance and the employment status for tax (CEST) tool.

What to do if your worker disagrees with the determination?

The client must decide your worker's employment status and if the off-payroll working rules apply. The client must then tell your worker their determination and the reasons for it. If your worker disagrees, they'll need to:

- give their reasons for disagreeing
- keep copies of any records about disagreements

We suggest you start a discussion straightaway with your end user to try to establish what status they're intending to apply to you and not waiting until 1st April when discussions may be more difficult. Wynniatt-Husey Ltd will hold training sessions in early 2021. Please contact us to register your interest.

Electric Company Cars

Many directors and employees enjoy the convenience offered by a company car. However, a company car is classed as a "benefit in kind" and is therefore subject to tax (a benefit in kind represents extra benefits given to employees that aren't included in salaries or wages). The benefit in kind tax rules reward those who choose cheaper, lower emission company cars with a lower tax bill. The Government recently revealed that electric vehicles will be exempt from company car tax in the 2020/21 tax year and so these cars will be taxed at 0% of their original new car list price as a benefit in kind, helping businesses make the transition to zero emission vehicles and a potentially emission-free future. No matter the registration date, pure electric cars with zero tailpipe emissions and certain plug-in hybrid cars will be taxed by the following benefit in kind percentages (company car tax rates) for the

next three tax years:

- 0% during 2020/21
- 1% during 2021/22
- 2% during 2022/23

For reimbursement of mileage, you will need to use the approved electricity rate of 4p per mile. The advantage of these reduced rates is that they will reduce the employee's income tax liability, and save employers on their Class 1A National Insurance liability. P11D forms are completed and returned to the HMRC by employers each year to report any benefits provided including company cars. In summary, switching to electric company cars can bring many benefits, including less benefit in kind tax for your employees. The savings are especially significant for the company.



Making Tax Digital

WHAT IS MAKING TAX DIGITAL?

'Making Tax Digital' is HMRC's ambitious plan of transforming tax administration for both individuals and businesses, so that it is more effective, efficient, and easier for taxpayers to pay the correct tax to HMRC, through keeping digital records and submitting information using the software.

A digital record is simply a computerised version of an item of data, which can be viewed on a computer, laptop, tablet, or mobile phone screen. This change results in the majority of traditional paper-based processes converting to online methods.

MAKING TAX DIGITAL DEADLINES

From April 2022, MTD for VAT shall be compulsory for all VAT-registered businesses irrespective of their turnover. From April 2023, MTD for Tax shall be implemented for all taxpayers who file Income Tax Self Assessments for business or property income of more than £10,000 a year.

In respect of the legislation, the UK government shall introduce a penalty system from 1 April 2021 for MTD for VAT, and shall be applied to the first complete VAT return on or after this date. The regime is as follows:

- A 'default' is recorded for failure to observe the MTD rules or missing a filing.
- If you default again, taxpayers enter a surcharge period, lasting 12 months in which surcharges as a % of the VAT due on the latest return is applied.
- An accumulated points system then applies for further faults if they happen within 12 months. (The 12-month surcharge period is reset each time there is a new fault.)

Wynniatt-Husey Ltd does not hold the same view as HMRC and most people will find using electronic software to be more expensive, more time consuming, more prone to errors and more costly in accountancy fees. However, you will still need to comply with the law and we will hold courses in 2021 for those people who are interested. Please contact us to register your interest.

IR35

On 17th March 2020 the UK Government announced a 1-year delay to new 'IR35 Off-Payroll' working rules, in light of the ongoing COVID-19 challenges and effects. This means, that until April 2021 the responsibility for determining status shall remain with contractors themselves. The reformed rules shall place the responsibility for assessing whether IR35 applies to the worker's services onto the private sector end-user, for all payments by medium and large businesses from 6 April 2021. The Government has indicated that they intend to use similar criteria to that found in the Companies Act 2006 to define a medium-large business. Under the current legislation this is broadly a business that has two or more of the following features:

- A turnover of more than £10.2m.
- A balance sheet total of more than £5.1m.
- 50 employees or more.

Where it is concluded by the end-user that IR35 applies, the fee payer will become responsible for accounting for and paying the related tax and NIC, including the additional cost of the employer's NIC to HMRC.



A disagreement can be raised until the last payment is made for the worker's services. The client will have 45 days from the date of receiving the worker's disagreement to respond. During that time the fee-payer should continue to apply the rules in line with the client's original determination.