This is a summary of the key tax events for the week ended 21 May 2017. It has been compiled by Anita Monteith, Jane Moore and Ian Young.

This newswire contains all the individual postings we have made to the Tax Faculty website over the past seven days. It includes both news items (www.ion.icaew.com/taxfaculty) and new discussions we have added to our forum (www.ion.icaew.com/Taxforum).

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VAT partial exemption – how can we simplify it?

Anyone who watched last Wednesday’s VAT simplification webinar with the Office of Tax Simplification will be aware that we are looking for ideas to suggest how VAT can be simplified. One question is whether partial exemption can be simplified.

Partial exemption has always been one of the most complicated areas of VAT, but many more businesses and other organisations now seem to be affected than there used to be. The OTS needs simplification suggestions and asks the following questions:

- How can we simplify the calculation?
- How can we reduce the amount of exempt goods and services?
- How can we change the de minimis thresholds to take businesses out of partial exemption altogether for which it was never intended?

The following polling question was asked in last Wednesday’s webinar:

‘Which issue causes the most complexity regarding partial exemption?’

- Agreeing a special partial exemption method with HMRC
- Limited understanding of partial exemption generally by businesses
- De minimis limits which are too low
• Businesses which would not consider themselves as making exempt supplies being caught within the partial exemption regime.’

The clear winner was that there is limited understanding of partial exemption generally by businesses. This will be due partly to businesses not being aware of its existence or where to look for information, but the complicated nature of partial exemption is undoubtedly a significant factor.

If you were unable to join the Webinar last week, you still have the opportunity to see the recording, which is free to all ICAEW members.

If you have any suggestions as to how partial exemption, or any other aspect of VAT, can be simplified, please send them to neil.gaskell@icaew.com or directly to the OTS at ots@ots.gsi.gov.uk in response to its report.

Where are we now? Residence and domicile

We are in limbo. New rules for domicile were due to have been implemented with effect from April 2017 by Finance Bill 2017. They weren’t, but will probably reappear after the general election, and we don’t know when they start.

In recent years, successive governments have made changes to the residence and domicile rules. The statutory residence test was introduced with effect from 6 April 2013 so the need to rely on case law and practice is already a distant memory.

Domicile changes have been thought about for even longer than residence changes and a significant change to the taxation of UK resident non domiciliaries was made with effect from 6 April 2008, the introduction of the remittance basis charge for longer term UK residents.

Further changes have been mooted in consultations with the proposed introduction of deemed domicile for all taxes not just inheritance tax. The legislation to bring this about was included in the Finance Bill 2017 but was dropped when the Bill was culled in advance of the general election.

It is likely that whichever party wins the general election, the draft legislation will be reinstated, but when will it start? Will the start date still be 6 April 2017 or will it move to 6 April 2018? What about those non doms who have already taken action in anticipation of the new legislation? What should non doms do now?

Join us for our webinar on 25 May at 11.00, Non Uk domiciliaries update, when Lisa Spearman of Mercer & Hole will give a refresher on the statutory residence test, the rules on non doms as we know them and what may happen in the future.

Pre-population of some client data in commercial self assessment software is now live

HMRC has given software companies the all-clear to release products which allow agents to retrieve some client data that is otherwise accessible online only to individuals through their Personal Tax Account.

This was signalled in Agent Update 59 which has some further details. The data includes:

• Employment
  o Business name and PAYE Ref
  o Benefits
Earnings and tax deducted

- Other income - pensions received, jobseekers allowance and incapacity benefit
- Tax refunded or set off by tax office
- Marriage allowance claims
- Class 2 NIC

Two step verification (2SV)

There is a process of Agent Authorisation, including 2SV, that agents will need to go through the first time they try to access this data for a client. The commercial software will prompt this process and once it has been completed that authorisation will continue for a period of 18 months.

Timing of availability of data

The employment, pension and benefit data will not be available until after HMRC has carried out the process of reconciling employer data. This process does not start until June and can be later so 2016/17 data will not be available until later this year.

Members who have queries on this functionality should contact their software provider but please also comment below on how this is working. It should partly mitigate the difficulties caused by the fact that HMRC is no longer giving agents pay and tax details over the phone, but a separate online solution which will work in all situations (including for clients who are not required to file a self assessment return) is expected later this year.

TAXguide 11/17 – what we don’t know about Making Tax Digital

During the months since our series of Demystifying MTD webinars began, ICAEW has been collating feedback from practitioners, and has compiled a list of the key questions for which we do not yet have clarity from HMRC. We have published this list as TAXguide 11/17.

In particular we have queries about the pilot, exemptions, property income and the interaction between End of Period Statement and the 31 January final declaration.

These questions have been sent to HMRC and we will update members once we have more information.

Making Tax Digital – the start date tool has been updated

Last week we posted a news item to launch an Excel tool to help agents determine the MTD start dates(s) for their clients.

The tool has been amended since its publication to address a number of glitches reported to us by members. The latest version was published on 17 May, if you downloaded the tool before then you may want to download the updated version.

The tool is available to members of the IT Faculty, the Tax Faculty, the Excel Community and Faculties online.

We would welcome feedback from members on this tool. Please also let us know if there are other resources that ICAEW might usefully provide to members.
Treat as if law had been enacted: Higher tax exemptions for employer provided pensions advice and legal advice

HMRC has confirmed that employers should treat the changes for employer provided pensions advice and legal advice (formerly clauses 12 and 13 in the Finance Bill 2017 published on 20 March 2017) as having been effective from 6 April 2017. Employers should continue to apply the guidance published at [HMRC guidance EIM 21802](https://www.gov.uk/government/publications/hmrc-eim-21802-higher-income-tax-exemption-for-maxi-plan-advice) and [HMRC guidance EIM 30509](https://www.gov.uk/government/publications/hmrc-eim-30509-higher-income-tax-exemption-for-maxi-plan-advice) which explains the two provisions.

Both of these changes were due to be legislated in the March 2017 Finance Bill. Owing to the forthcoming election the Finance Bill 2017 proceeded on the basis of consensus between the government and opposition parties in Parliament and a number of clauses, including these two changes, were dropped from the Bill that was enacted on 27 April 2017. The Financial Secretary has said that there has been no policy change and that the government if re-elected will legislate the provisions at the earliest opportunity in the next Parliament. We welcome these reassurances.

**Pensions advice**

There will be a new income tax exemption to cover the first £500 worth of pensions advice provided to an employee (including former and prospective employees) in a tax year. It will allow advice not only on pensions, but also on the general financial and tax issues relating to pensions, allowing individuals to make more informed decisions about saving for their retirement. The changes replace existing provisions which limited the exemption solely to pensions advice and was capped at £150 per employee per year.

**Legal expenses**

An extension to existing reliefs for employees (or former employees) who may require legal advice or indemnity insurance which is funded by their employer. Currently, such costs are only deductible from earnings for employees who have had allegations made against them in their capacity as an employee (a liability). This new measure provides equivalent deductions to be available in relation to proceedings where no allegation has been made or is expected to be made against the employee, for example, where an employee is asked to give evidence before a public hearing when they might also require legal advice and support. It also extends the reliefs for individuals on termination of employment (or for individuals now deceased) so that a deduction is allowable if the relevant costs are met by the employer on behalf of the individual.

**Pension newsletter – Scottish rate of income tax**

HMRC have published a [newsletter](https://www.gov.uk/government/publications/hmrc-newsletter-pensions-update-31-10-2017) explaining the changes that will need to be made such that pension scheme members receive tax relief based on their residency tax status. If the rate of income tax for Scotland diverges from the rate in the rest of the UK relief can be applied to the members’ contributions at the correct rate.

From January 2018 HMRC will advise pension scheme administrators of the tax residency status of their individual members on an annual basis.

The newsletter explains the transition to the secure data exchange service (SDES) which will be used for the two way communication between the scheme administrators and HMRC. SDES is a secure online service that allows businesses and HMRC to send and receive bulk information via the internet.