TAX FACULTY – WEEKLY NEWS UPDATE

TAXwire: 981

This is a summary of the key tax events for the week ended 29 September 2019.

It has been compiled by Lindsey Wicks and Anita Monteith.

This newswire contains all the individual postings we have made to the Tax Faculty website over the past seven days. It includes various news items (ion.icaew.com/taxfaculty).

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Scams – a real life example from a member

HMRC and ICAEW periodically remind taxpayers and members about the need to be vigilant when they are contacted by someone purporting to be from HMRC. The following real life example provided by a member highlights how aggressive the approaches can be:

'This afternoon I had a call from a client who runs a limited company; he is very diligent and keeps his PAYE and CIS payments up to date.

The client (not based in Northamptonshire) had received a call from 'a bailiff of Northampton crown court' saying he had a court warrant to collect £853.27 and that he was on his way to the client's address (the registered office) to seize goods unless the debt was paid immediately. The 'bailiff' added that the amount would go up by £400 if not paid within 30 minutes.

I phoned the 'bailiff' who was extremely aggressive and would not say what tax was owed. I then checked online and with HMRC and confirmed that my client did not owe anything. The 'bailiff' did not arrive at my client's address.

HMRC has taken all the details including the mobile phone number and the bank details left by the 'bailiff' and is investigating. My client has reported it to the police.

This seems to be a very aggressive scam and I suspect some taxpayers would pay out of panic.'

HMRC publishes fairly extensive guidance on phishing and scams including examples of phishing emails and bogus contact and how to recognise genuine HMRC contact.

5 October deadline to tell HMRC about taxable income or gains

Saturday 5 October 2019 is the deadline to tell HMRC about a new source of taxable income, becoming liable to the high income child benefit charge or a capital gain in the tax year 2018/19.

The requirement to notify chargeability is in s7, Taxes Management Act 1970. To collect the tax, the person may have to be put into the self assessment (SA) system, or the tax may be collected another way, such as via PAYE.

Individuals who are already in SA and have been sent a notice to file a 2018/19 tax return do not generally need to do anything by 5 October – they should simply enter the information on their tax return (although see below concerning the newly self-employed). There is no need to notify HMRC of income on which the liability has been met by deduction of tax at source.

Taxpayers not currently in SA, but who meet the criteria for filing an SA return, can notify HMRC by registering for self assessment.

Newly self-employed individuals should register their self-employment to ensure that they are correctly charged Class 2 National Insurance contributions, even if they are already in SA.

Taxpayers who miss the 5 October notification deadline may be at risk of late notification penalties.

We are frequently asked how those who do not meet the criteria for SA should notify their untaxed income to HMRC. For example, those with dividends in excess of the dividend allowance or interest income in excess of the personal savings allowance but below the SA criteria of £10,000 of income from either of these sources. Such taxpayers should notify HMRC by phone or in writing. Where possible HMRC will collect any tax due through PAYE codes and calculations. In some cases this may not be possible and the taxpayer may need to be put into SA despite the criteria not being met.

HMRC issues second ‘Brexit special’ employer bulletin

The main story in this bulletin for UK employers relates to social security for employees sent to work in the EU, the EEA or Switzerland. However, the Employer Bulletin also highlights other Brexit guidance, webinars and training grants available.

The bulletin emphasises that if the UK leaves the EU without an agreement, the existing EU Social Security Coordination Regulations which ensure employers and their workers only need to pay social security contributions (such as National Insurance contributions in the UK) in one country at a time will come to an end. This may mean that employees need to make contributions in both the UK and the country in which they are working.

If an employee working in the EU, the EEA or Switzerland has a UK-issued A1/E101 form, they will need to continue paying UK National Insurance contributions for the duration of the time shown on the form. Where the end date on the A1/E101 form is after the UK leaves the EU, the employer should contact the relevant EU / EEA or Swiss authority to confirm whether or not their employees need to start paying social security contributions in that country too. The relevant country’s authority can be found on the European Commission’s website.

However, where the employee is a UK or Irish national working in Ireland the good news is that their position will not change.

Where employees are posted to EEA countries and want to maintain their UK social security record after Brexit, they will still need to make an application to do so. Form A1/E101 will be replaced after Brexit, but the same online form will be available.

HMRC also published guidance in April 2019, Social security contributions for UK and EU, EEA and Swiss workers if the UK leaves the EU with no deal.

The Tax Faculty thinks that the reciprocal social security agreements that were in force before the UK joined the Common Market may revive if there is a no-deal Brexit and we have raised this with HMRC.

Further Brexit-related information from ICAEW can be found at icaew.com/brexit.

To simplify VAT, adopt OECD's International VAT/GST guidelines

This would obviate the need for both partial exemption and the capital goods scheme.

As a long term improvement to VAT, the UK should adopt the principles in the OECD International VAT/GST guidelines which on neutrality (see Guideline 2.1) state that the burden of value added taxes themselves should not lie on taxable businesses except where explicitly provided for in legislation. Adopting these guidelines would enable all input tax incurred for business or charitable purposes to be claimed in full for all business and charitable activities.

ICAEW Tax Faculty expressed this view in its response ICAEW REP 101/19 to HMRC's call for evidence on the operation of VAT partial exemption (PE) and capital goods scheme (CGS).

Adopting the principles in the OECD's guidelines would simplify VAT compliance and therefore implementation of Making Tax Digital for VAT because it would remove the need for PE methods and the CGS, and the only type of adjustment required would then be for business/non-business use, which would affect a relatively small number of those who are VAT registered.

If adopted, it would be appropriate to reconsider the exemption (without input tax credit) from many supplies that currently receive that treatment, with a view to removing some or all of them.

However, we recognise that such changes would potentially have considerable practical, revenue and political difficulties that would need to be addressed.

On the basis that existing VAT exemptions are retained, we recommend simplification of the existing PE rules and removing the CGS or, at the least, limiting the CGS to property purchases and new constructions only and increasing the threshold.

HMRC property rental toolkit

HMRC has published the 2018/19 version of the property rental toolkit.

These toolkits are a very useful aide memoire to assist individuals or practitioners to complete self assessments, particularly if it is a section of the tax return that they are not familiar with. With regards the property rental business there have been so many changes recently that even those experienced with the pages may find a few hints useful.

Recent changes include:

- cash basis by default
- the restriction to finance costs, restricted to 50% of the interest paid in 2018/19
- no distinction between furnished and unfurnished property so no 10% wear and tear claim but a claim can be made for the replacement of domestic items (there is a separate box for this expenditure)
- business mileage can now be claimed using the 45p a mile shorthand rather than a proportion of all running costs (provided that capital allowances not claimed previously)

HMRC publishes annual UK corporation tax statistics

The latest statistics show corporation tax receipts of £55.1bn for 2018/19, an increase of 2% on 2017/18.

The report highlights recent policy changes that could affect the figures. Receipts continue to rise despite the decrease in the rate of corporation tax from 20% to 19% from 1 April 2017.

The largest companies pay the most corporation tax with liabilities for 2017/18 totalling £30.9bn, up from £26bn in 2016/17. Interestingly, these companies represent less than 0.3% of all companies, but were liable for nearly 56% of all corporation tax in 2017/18. Recent policy changes that will have particularly affected the largest companies include the corporate interest restriction and the loss relief restriction, both of which apply from 2017/18.

The finance and insurance sector is showing the biggest sectoral increase with liabilities of £14.1bn in 2017/18 up from £12.4bn in 2016/17. In addition to the policy changes above, banks have suffered surcharge of 8% since 1 January 2016 and have been subject to loss restriction rules since 1 April 2016.

Another point of interest is the increase in the cost of capital allowances. Over the six years to 2017/18, capital allowance claims have increased by 36%, from £72bn in 2012/13 to £97bn in 2017/18. This is despite a £3bn decrease between 2015/16 and 2016/17 when the Annual Investment Allowance threshold dropped to £200,000. The statistics do not yet include the cost of the new Structures and Buildings Allowance introduced for expenditure from 29 October 2018. This is clearly an area where the tax cost will continue to rise in line with business investment.

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About ICAEW

ICAEW connects over 149,000 chartered accountants worldwide, providing this community of professionals with the power to build and sustain strong economies.

Training, developing and supporting accountants throughout their career, we ensure that they have the expertise and values to meet the needs of tomorrow's businesses.

Our profession is right at the heart of the decisions that will define the future, and we contribute by sharing our knowledge, insight and capabilities with others. That way, we can be sure that we are building robust, accountable and fair economies across the globe.

ICAEW is a member of Chartered Accountants Worldwide (CAW), which brings together 11 chartered accountancy bodies, representing more than 1.6 million members and students globally.

About the Tax Faculty

Internationally recognised as a source of expertise, the Tax Faculty is a leading authority on taxation. It is responsible for making submissions to tax authorities on behalf of ICAEW and does this with support from more than 130 volunteers, many of whom are well-known names in the tax world.