Compass Accountants

TaxAngles

For Proactive Tax Planning

Newsletter July/August 2014

Quotation of the Month

“Never let the future disturb you. You will meet it, if you have to, with the same weapons of reason which today arm you against the present”. - Marcus Aurelius - Emperor of Rome AD121 - AD180.

Contact Jeff Walton on 01329 844145 to help you develop a compelling future.

Replacement of “white goods” and similar items in unfurnished, let property

This reminder will affect landlords of unfurnished let property who are considering the replacement of standalone white goods (fridges etc) and similar items.

Following the withdrawal of a tax concession from April 2013, there is effectively no tax relief for the replacement of defective, free-standing white goods in unfurnished properties.

In some respects this absence of relief is difficult to justify but HMRC are clear that, at present, expenditure to replace free-standing white goods etc from April 2013 will not be tax deductible.

However, if a fridge is incorporated into a fitted kitchen, any replacement of defective white goods will be allowed as a repair. The distinction is that a fitted fridge is only part of the overall fitted kitchen, whereas a free standing fridge is an item in its own right.

A genuine repair to keep an item in a working or usable condition will, of course, still be tax deductible.

Replacement of white goods in furnished property is covered by the annual 10% “wear and tear” allowance.

Discontinuance of trade and the Annual Investment Allowance (AIA)

In a recently decided tax case a self-employed air conditioning engineer, David Keyl, was denied a claim for AIA. He had purchased a van in July 2008 and on 31 March 2009 (the end of his trading year) he transferred his sole trader business to a limited company.

Unfortunately, the legislation setting up the AIA includes a provision that relief will be denied in the year in which a trade discontinues.

In the case of David Keyl his sole trader business ceased to trade 31 March 2009 and therefore no claim could be made for AIA in the tax year 2008-09. The fact that Mr Keyl had continued to provide maintenance under existing contracts made no difference to this judgement.

The lesson to be learned here is that a decision to incorporate a business should not be taken lightly. If Mr Keyl and his advisors had reviewed the larger transactions he had entered into during 2008-09, they may well have delayed incorporation to the following year.

PENALTY FOR JUST ONE DAY

Consider the following facts:

- The filing deadline for a Stamp Duty Land Tax return was a Sunday.
- A member of the advisor's staff forgot to file the return by the end of the Friday – two days before the deadline.
- Realising their mistake, the staff member took the file home with the intention of filing over the week end.
- Due to problems with internet access it was impossible to file the return before the deadline expired.

The return was subsequently filed the next working day, a Monday – one day late.

HMRC charged a late filing penalty and the tax payer appealed.

The court decided that the penalty had been charged in accordance with legislation and the tax payer had no grounds to appeal.

The fact that internet access was not available did not affect the issue. The First-tier Tribunal noted that "leaving matters to the last minute was a recipe for disaster" and that it did not have jurisdiction to decide on the fairness of a penalty.

BUSINESS USE OF EMPLOYEES' CARS

Many employers pay their employees a monthly car allowance to compensate them for the business use of their private vehicles. In most cases this car allowance is treated as remuneration and is subject to PAYE and National Insurance deductions.

Additionally, employers may also pay a nominal amount per mile as a contribution to fuel costs.

Employers are entitled to pay their employees a tax free mileage allowance for the business use of their private vehicles. The rates are:

- 45p per mile for the first 10,000 miles in any tax year, and
- 25p per mile for any additional use.

Many employers pay their employees a monthly car allowance to compensate them for the business use of their private vehicles. In most cases this car allowance is treated as remuneration and is subject to PAYE and National Insurance deductions.

In a recently decided case, an employer that paid less than the 45p (25p) tax free rates, was enabled to deduct the difference between the actual rate paid and tax free rates available, from the monthly car allowance, before working out any employer's or employee's National Insurance Contributions due on the monthly car allowance.

If the amount being paid for business use of fuel is nominal, this can make quite a difference to National Insurance Contributions that are due.

Employers reading this article, whose circumstances match the following criteria, may be able to claim refunds for overpayment of past NIC deducted from car allowance payments. The outcome of such claims will depend on how closely their circumstances mirror the decided case mentioned above, and HMRC's interpretation of the ruling:

The criteria are:

- You pay or have paid employees a regular car allowance.
- You have also paid nominal mileage rates to cover business related fuel costs, below the current tax free rates of 45p (25p) per mile.

Please note that in the decided case discussed in this article, the allowance was only paid to employees travelling more than 2,500 business miles each year though the mileage rate they received was correspondingly reduced to 12p per mile from 40p. It was thus aimed at compensating those incurring additional costs for using their cars substantially for business purposes.

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The Queen's Speech

A small business, enterprise and employment bill is designed to support small businesses.

It will make it easier for SMEs to access finance (details to follow). It will also provide small firms with fairer access to public sector contracts which are currently dominated by larger outsourcing firms. So good luck to you if this is a market you compete in!

Red tape will be reviewed regularly so that it doesn't unduly restrict small businesses.

The bill will also create a register of beneficial ownership of UK companies (LLP's do not appear to be included). It strengthens rules in director disqualifications and aims to remove unnecessary costs from insolvency law.

The bill also proposes a new statutory code and an adjudicator for tied tenants of public homes.

Higher penalties will apply to employers who fail to pay the national minimum wage or abuse zero-hour contract arrangements.

The Queens' Speech also spelt out intended change for:

National Insurance
Pensions
Childcare and Welfare
Compliance and crime
Devolution of Scotland
The Environment

With time pressures and the impending general election in 2015, surely not all the proposed changes will become law!

VAT on Prompt Payment Discounts

The general rule relating to VAT on prompt payment discounts (PPD's) was that the supplier have been allowed to calculate the VAT on the discounted amount whether or not the customer paid within the stated discount
period.

For example if supplier A provides goods to the value for £100 to customer B, and offers a 10% discount for settlement in 30 days, the VAT is calculated as follows:

Value of the goods in the transaction £100
Value of the goods in the 10% discount is offered £90
VAT due is 20% of £90 or £18

The sales invoice shows:

Supplies	100
10% PPD	10
	90
VAT @ 20%	18
Gross value of transaction	108

Instead of £100+20% VAT = £120 Gross.

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VAT on Prompt Payment Discounts (continued)

However with aggressive tax planning strategies, a supplier could offer a PPD of 99% to a customer who is not able to recover VAT. This reduces the customer's non-recoverable VAT while still giving the supplier the same invoice.

Traditionally PPD's were given on business to business (B2B) transactions where the recipient is entitled to recover any VAT charged.

But aggressive suppliers have been offering PPD's to final consumers (B2C) transactions where the recipient is NOT registered for VAT and cannot recover it. In particular such transactions of B2C services have been offered in telecoms and broadcasting sectors.

This results in a tax loss to HMRC and the 2014/15 project has bought the UK In line with EU where VAT is charged on the full value actually paid.

Effective dates of these changes

This measure came into effect from 1st May 2014 for suppliers of telecoms and broadcasting services where there is no obligation to provide a VAT invoice i.e. to customers not registered for VAT.

For all other suppliers this change will apply to suppliers from 1st April 2015 including all B2B suppliers.

Can you imagine two admin difficulties facing suppliers?

Do I need to issue an invoice showing VAT on the full amount of the supply or the discounted amount?

I then need to monitor the payment of the invoice:

Is the invoice payment with the discount terms, I must issue a credit note if I change VAT on the full amount.

OR if the invoice is paid late, issue a supplementary invoice for VAT only if it changed VAT on the discounted rate!

It is likely that most suppliers will charge VAT on the full amount because of the difficulty of recovering any unpaid VAT from the customer.

Tax Diary July/August 2014

1 July 2014 - Due date for Corporation Tax due for the year ended 30 September 2013.

6 July 2014 - Complete and submit forms P11D return of benefits and expenses and P11D(b) return of Class 1A NICs.

6 July 2014 - Deadline for details of payments and benefits in kind to be provided to HM Revenue and Customs if you wish to arrange a PAYE Settlement Agreement to pay the PAYE/NIC arising so the employee is not charged.

6 July 2014 - Deadline for submitting form 42 (reporting of transactions in employment related securities).

6 July 2014 - Deadline for submission of new Tax Credit application for 2014-2015, if you want to secure a full year's claim.

19 July 2014 - Pay Class 1A NICs (by the 22 July 2014 if paid electronically).

19 July 2014 - PAYE and NIC deductions due for month ended 5 July 2014. (If you pay your tax electronically the due date is 22 July 2014.)

19 July 2014 - Filing deadline for the CIS300 monthly return for the month ended 5 July 2014.

19 July 2014 - CIS tax deducted for the month ended 5 July 2014 is payable by today.

31 July 2014 - Deadline for Tax Credit renewal submissions – notification of income for 2013-2014.

31 July 2014 - Increased penalty in respect of late Tax Returns not yet submitted for the year to 5 April 2013.

31 July 2014 - The second payment on account of self assessment income tax (and Class 4 NIC) by individuals for 2013– 14 must reach HMRC to avoid late payment interest charges

1 August 2014 - Due date for Corporation Tax due for the year ended 31 October 2013.

19 August 2014 - PAYE and NIC deductions due for month ended 5 August 2014. (If you pay your tax electronically the due date is 22 August 2014.)

19 August 2014 - Filing deadline for the CIS300 monthly return for the month ended 5 August 2014.

19 August 2014 - CIS tax deducted for the month ended 5 August 2014 is payable by today.

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