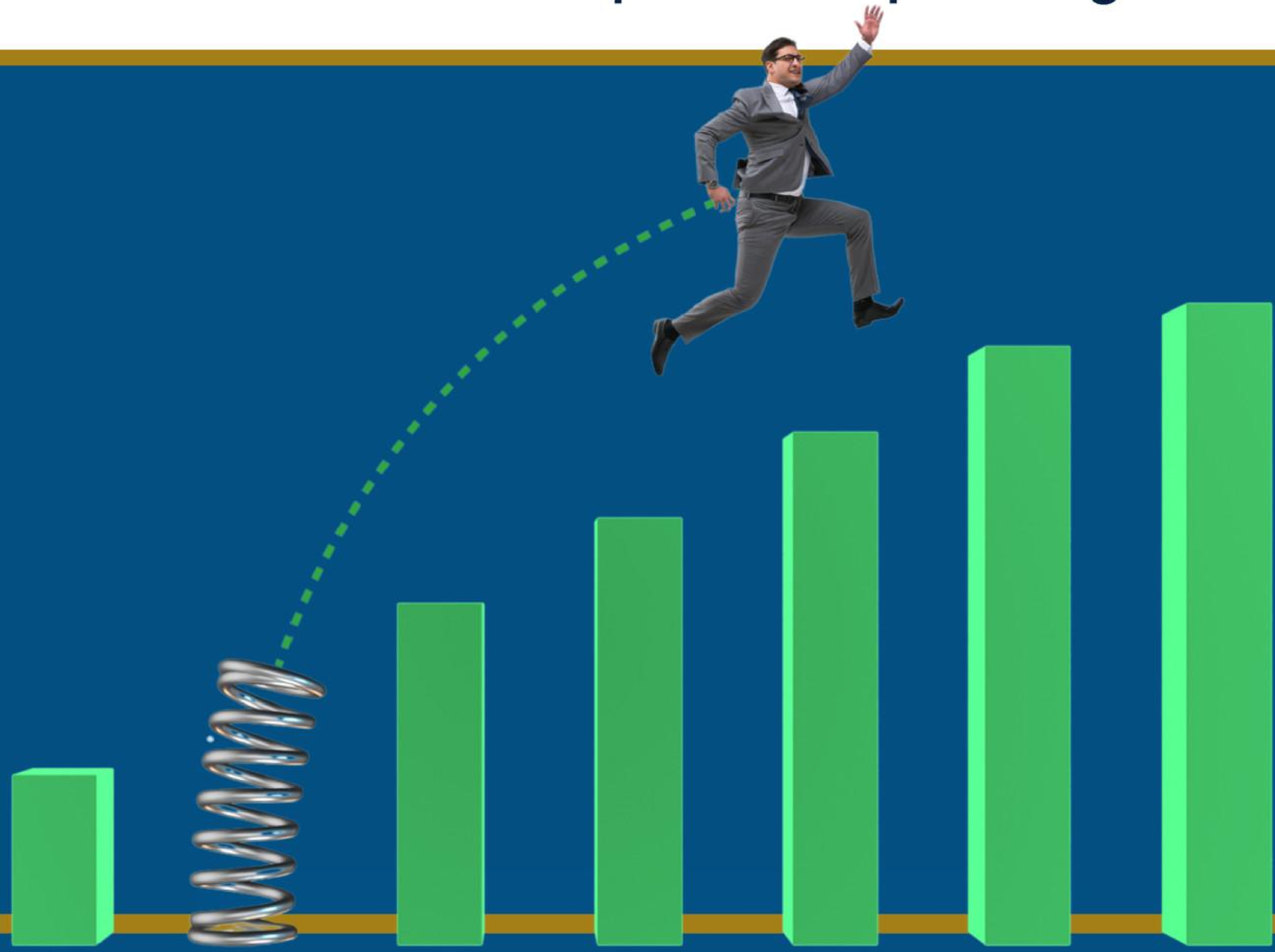
TAXANGLES from COMPASS ACCOUNTANTS

A newsletter for proactive planning...



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September 2024 Issue

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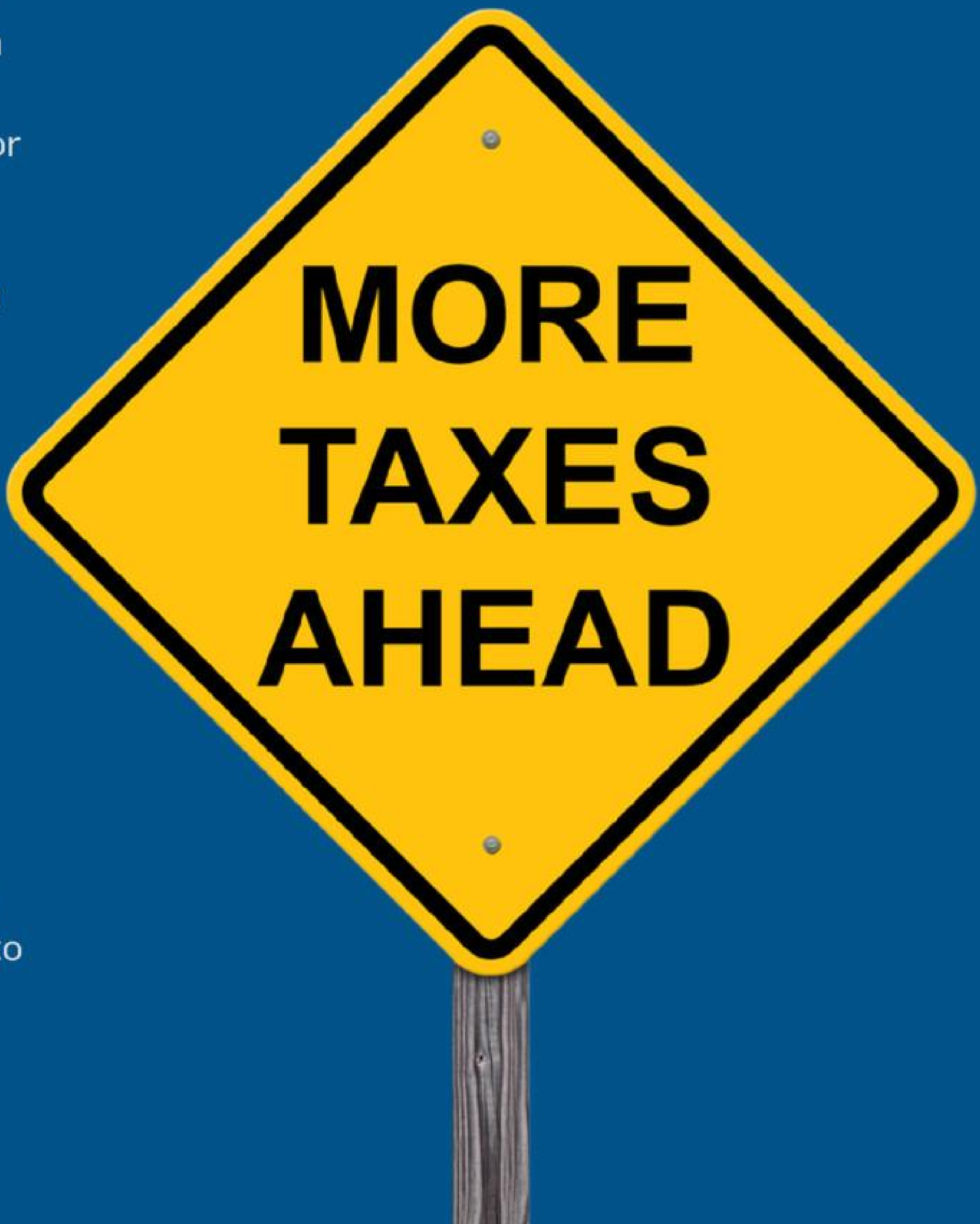
Using form R40 to claim a tax refund

If you are entitled to a refund of tax deducted from savings and investment income, you can claim the refund using form R40 if you do not complete a Self Assessment return. If you do complete a Self Assessment tax return, you do not need to make a separate claim as any tax due to you will be taken into account in computing the amount due or repayable under Self Assessment. A claim can be made on form R40 for the current tax year and the previous four tax years.

If you are making the claim for yourself, you make the claim online or by using the postal form. If you are making the claim on behalf on someone else, you will need to use the postal form, which is available on the Gov.uk website at www.gov.uk/guidance/claim-a-refund-of-income-tax-deducted-from-savings-and-investments.



To make the claim, you will need to provide your personal details and details of your income. This will include employment income, pension income, state benefits, interest and dividend income, income from trusts, settlements and estates and income from UK land and property. You will also need to provide details of payments made under gift aid, and indicate whether you are entitled to the blind person's allowance and/or the married couple's allowance. You must also provide details of the address to which the repayment should be sent.

Using an agent

An agent can also make a refund claim on your behalf. Since 30 April 2024, agents claiming a refund of income tax deducted from savings and investment income on behalf of their clients must use the new standard HMRC R40 form. In the event that the agent is the nominated third party to whom the repayment is to be paid, they must complete the nomination section on the new form and provide their agent reference number (ARN). If the claim is made on a different version of the form, it will still be accepted, but the nomination section will be disregarded and the claim will be paid direct to the client rather than to the agent. The client will also need to complete the section of the form indicating that they are nominating a professional to act on their behalf. If this section of the form is not completed correctly, the repayment will be made to the client rather than to the agent.

R40 claims for interest paid on payment protection insurance

Where the R40 repayment claim relates to interest on payment protection insurance (PPI), evidence of the original PPI payment must be submitted when making the claim. The document must show the gross interest, the tax deducted and the net interest. This could be a certificate from the company that made the refund, showing the tax deducted from the refund, or a final response letter from the company making the refund.

VAT on school fees

As outlined before the election, the new Government are to go ahead with their proposal to impose VAT on school fees. Legislation was published in draft on 29 July, together with a technical note.

From 1 January 2025, education services and vocational training supplied by a private school will be liable to VAT at the standard rate of VAT. Where fees are paid on or after 29 July 2024 in respect of a term starting on or after 1 January 2025, these too will attract VAT at the standard rate of 20%. Boarding services which are closely related to the supply of education services and vocational training will also be liable to VAT at the standard rate of 20% from 1 January 2025. The funds raised by the imposition of VAT on private school fees are to be used to fund education in the state sector.

For these purposes, a 'private school' is defined as a school at which full-time education is provided for pupils of compulsory school age, or an institution at which education is provided for those over compulsory school age but under the age of 19 (such as a sixth-form college), and in respect of which fees are paid for the provision of that education.

Nurseries, whether standalone or attached to a primary school, are to remain outside the VAT charge, which will apply from the first year of primary school.
Education provided at private sixth-form colleges, whether standalone colleges or attached to a private school, will be within the charge. However, education and vocational training which is provided by further education colleges will not be subject to VAT. Education and boarding provided by state schools remain exempt from VAT.

Private schools will also be required to charge VAT on any other services that they provide, for example, education provided before or after school and for extra-curricular activities, such as arts and sports clubs. However, where before and after-school clubs and holiday clubs only provide childcare and there is no education element, VAT will not be chargeable.

Pre-payments

The tax point is normally the time at which the services are performed. However, if a payment is made or a tax invoice is issued before the service is performed, this may instead be the tax point. To prevent parents from escaping VAT on payments for education services provided on or after 1 January 2025 by paying the fees in advance, retrospective legislation is to be included in the Finance Bill to provide that, where a payment is made on or after 29 July 2024 for education to be provided on or after 1 January 2025, VAT will be due on the fees. This will render attempts to save VAT by paying multiple years' fees in advance ineffective. The Government have stated that they will challenge the validity of lump sums paid before this date which do not relate to specific fees and will seek to collect VAT on fees where they believe this to be due.

Private schools who are not currently registered for VAT will be able to register from 30 October 2024.

Claiming refunds of overpaid PAYE

If it works correctly, the tax that is collected under PAYE will exactly match the tax that is due for the year. However, in practice, this balance may be disturbed, for example, because benefits included in a tax code change or a wrong tax code is used, and an employed taxpayer may pay too much or too little tax as a result. Where this is the case, HMRC will send out a letter. This may be a tax calculation letter (P800) or a Simple Assessment letter. The letter will explain how to pay any tax that is owed or, where the taxpayer has overpaid tax, how to claim a refund. A letter will only be sent out where the taxpayer is employed or in receipt of a pension. Where the taxpayer is within Self Assessment, over and underpayments are dealt with through the Self Assessment system.

The letters are normally sent out between June and the end of November each year. A person may receive a tax calculation letter if the wrong tax code has been used, if they finished one job and started another in the same month and were paid for both jobs in that month, they started receiving a pension or received Employment and Support Allowance or Jobseeker's Allowance.
A Simple Assessment letter will be sent where a person owes tax that cannot be collected via an adjustment to their tax code, they owe tax of more than £3,000 or have tax to pay on their state pension.

Claiming a refund

HMRC have changed the way in which they deal with refunds where tax has been overpaid under PAYE. Previously, where a refund had not been claimed, HMRC would send a cheque out automatically 21 days after the issue of the tax calculation letter. They no longer do this and, where tax has been overpaid under PAYE, the taxpayer will only receive a refund if they actually claim it. The tax calculation letter will explain how to do this.

Where the letter states that the refund can be claimed online, this can be done by visiting the Gov.uk website at www.gov.uk/tax-overpayments-and-underpayments/if-youre-due-a-refund. The refund can be made via bank transfer. Alternatively, a cheque can be requested.

Refunds can also be claimed through the taxpayer's personal tax account or the HMRC app. A taxpayer can also contact HMRC on 0300 200 3300 and request a cheque.
Taxpayers who do not receive a tax calculation letter but who think that they have paid too much tax under PAYE should contact HMRC.

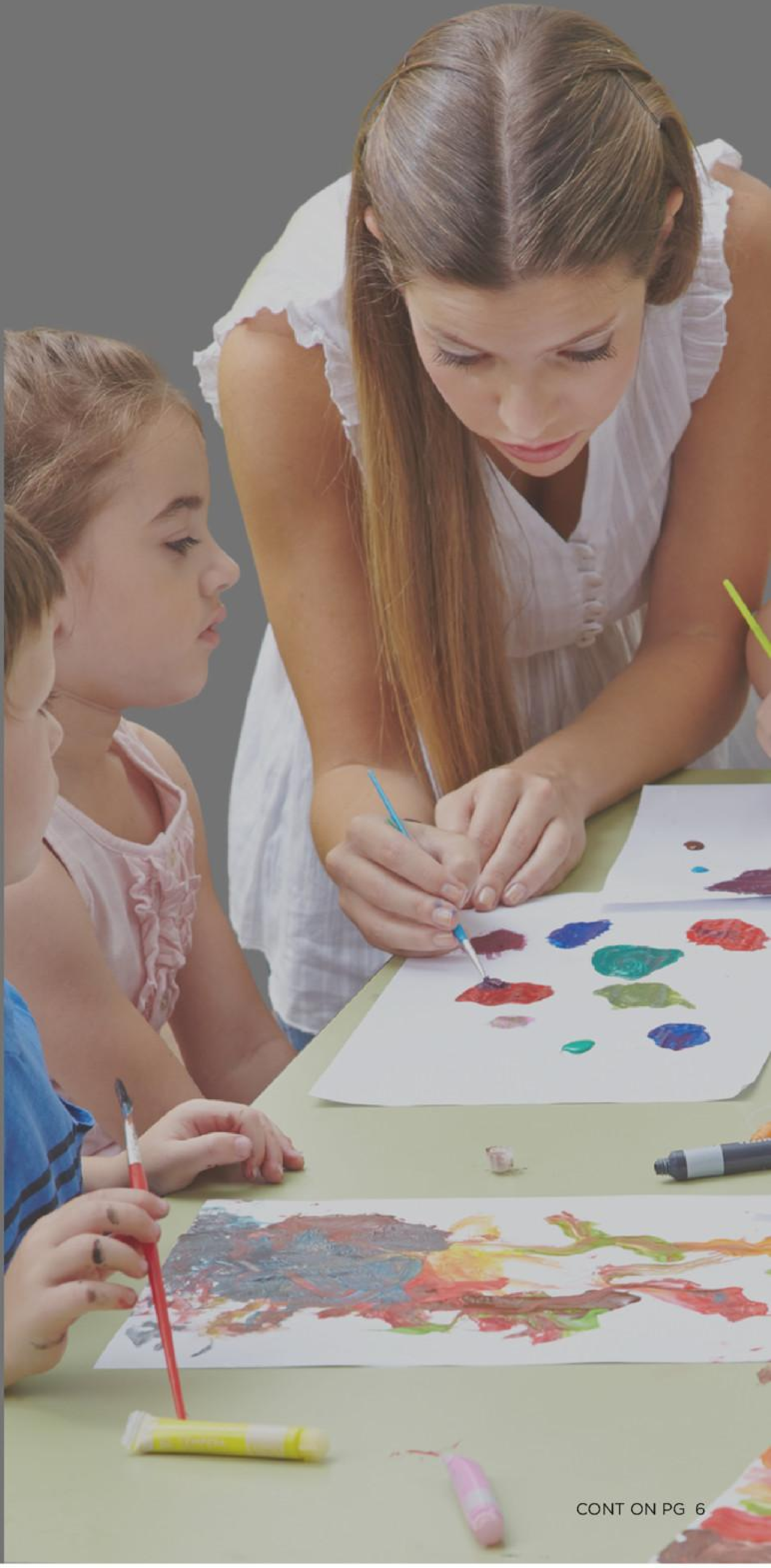
Workplace nursery partnership schemes

No tax charge arises in respect of the provision of a nursery place for an employee's child at a workplace nursery provided that the associated conditions are met. Unlike the exemptions for childcare vouchers and employer-supported childcare to the extent that these remain available, the tax exemption for workplace nursery places applies without limit.

For the exemption to apply, the employer must either make available the premises in which the care is provided or meet the partnership requirements. The partnership requirements make it possible for smaller employers without the resources to open a workplace nursery on their premises to provide nursery places to their employees within the terms of the exemption. To meet the partnership requirements, the care must be provided under arrangements that include the employer on premises made available by one or more of those persons and, under the arrangements, the employer is wholly or partly responsible for financing and managing the provision of the care.

An employer may enter into a partnership with a commercial nursery to provide the care. However, to satisfy the partnership condition, the employer must have some responsibility for financing the provision of the care and for managing it.

As far as financing the care, this requires more than simply buying places at a commercial nursery and making a contribution to fixed costs. HMRC do not regard this condition as being met if the employer pays a set amount per child per month towards the fixed costs of an existing commercial nursery. Rather, the employer must accept the financial risk of running a childcare facility, contributing to total costs and taking joint responsibility for any losses. Responsibility for managing the provision of care, either wholly or in part, requires input and influence on management decisions and the way in which the childcare is provided. This may include monitoring staff performance or allocating places.



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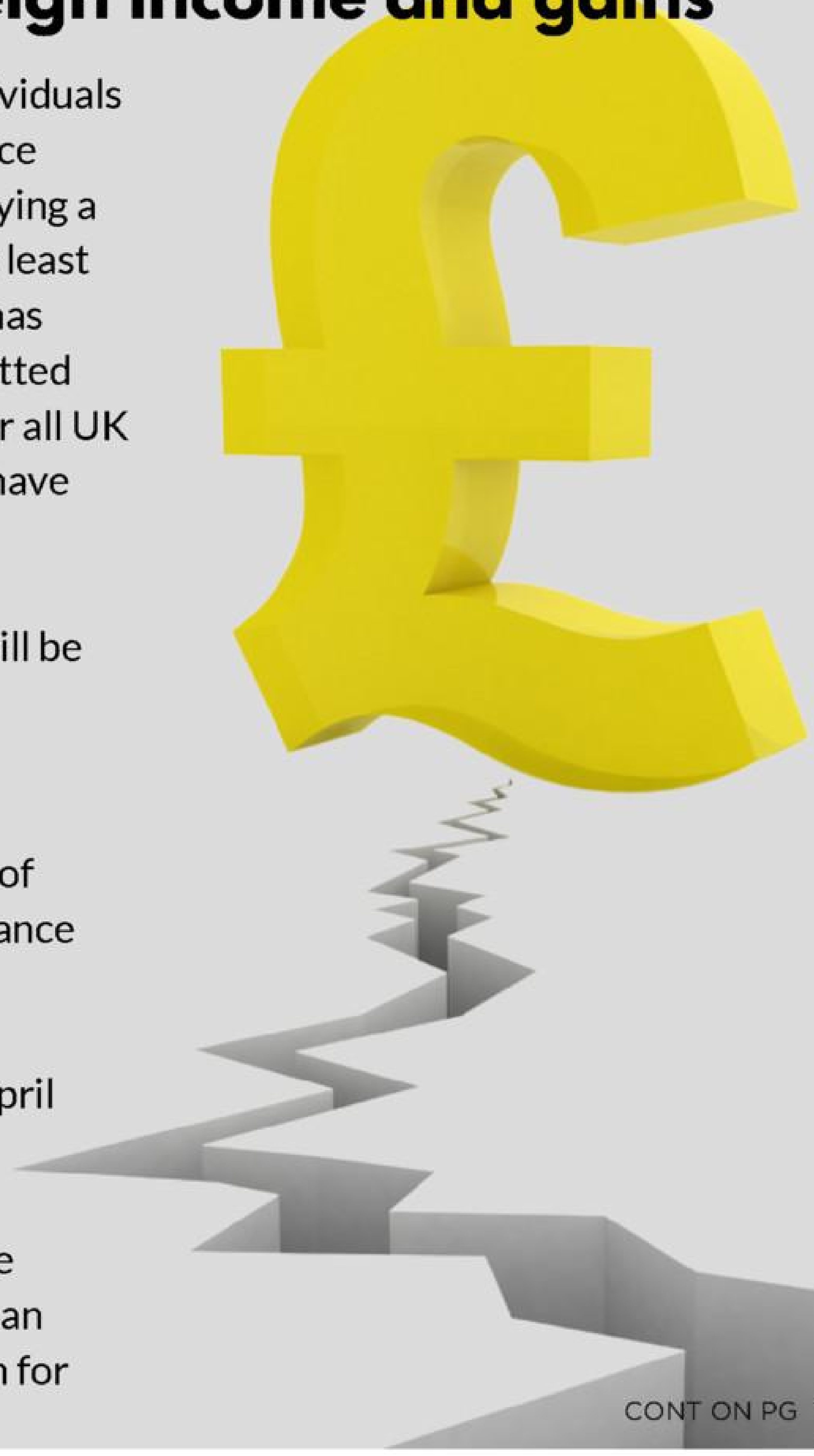
Commercially marketed schemes

A number of commercially marketed schemes are available which take advantage of the tax exemption for workplace nurseries. Typically, they include some or all of the following features:

·the employee enters into a salary sacrifice scheme, giving up an amount of pay equal to the cost of a nursery place;
·the employer pays for a nursery place for an employee's child (either at a nursery run by a scheme promoter or at an independent nursery);
·the employer pays the nursery an additional sum in addition to the cost of the place (typically about £400 a year); and
·the employer appoints the scheme promoter as their agents to act on their behalf at meetings of the nursery's management committee.
The scheme is usually offered as a package.

While HMRC are of the view that most partnership schemes meet the exemption condition, they are aware of marketed schemes where the partnership requirement is not met because the employer does not share the financial risk and has no real say in how the nursery is run. Where this is the case, the tax exemption does not apply and a tax charge will arise if the employer meets the cost of a nursery place for an employee's child. Smaller employers looking to offer workplace nursery places to employees should be aware of this when considering a commercially marketed scheme.

New residence-based regime for foreign income and gains



The remittance basis of tax is an optional tax treatment that allows individuals who are resident but not domiciled in the UK to pay tax on foreign source income and gains only if they are remitted to the UK in exchange for paying a fee. The fee is set at £30,000 where the person has been resident for at least seven of the previous nine tax years and at £60,000 where the person has been resident in at least 12 of the previous 14 tax years. Where unremitted income and gains are less than £2,000 in the tax year, no fee applies. For all UK tax purposes, an individual is deemed to be domiciled in the UK if they have been resident in the UK for at least 15 of the previous 20 tax years.

The remittance basis will cease to apply from 6 April 2025. Instead, it will be replaced with a new residence-based regime.

The new regime

At the Spring 2024 Budget, the then Government announced a serious of changes to the rules for non-doms, including the abolition of the remittance basis and, subject to some transitional rules, the introduction of a new residence-based regime. The proposals are being taken forward by the current Government, albeit with some changes, and will apply from 6 April 2025.

Under the new regime, all UK residents will be taxed on their worldwide income wherever arising, regardless of their domicile. This is subject to an exemption for new arrivals who will benefit from a 100% tax exemption for

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foreign source income and gains for their first four years of residence, provided that they have not been UK resident in the previous ten years.
A form of Overseas Workday Relief will continue to apply. This provides relief from UK tax for earnings from work performed abroad which are not remitted to the UK. The Government are to consult on what this will look like going forward.

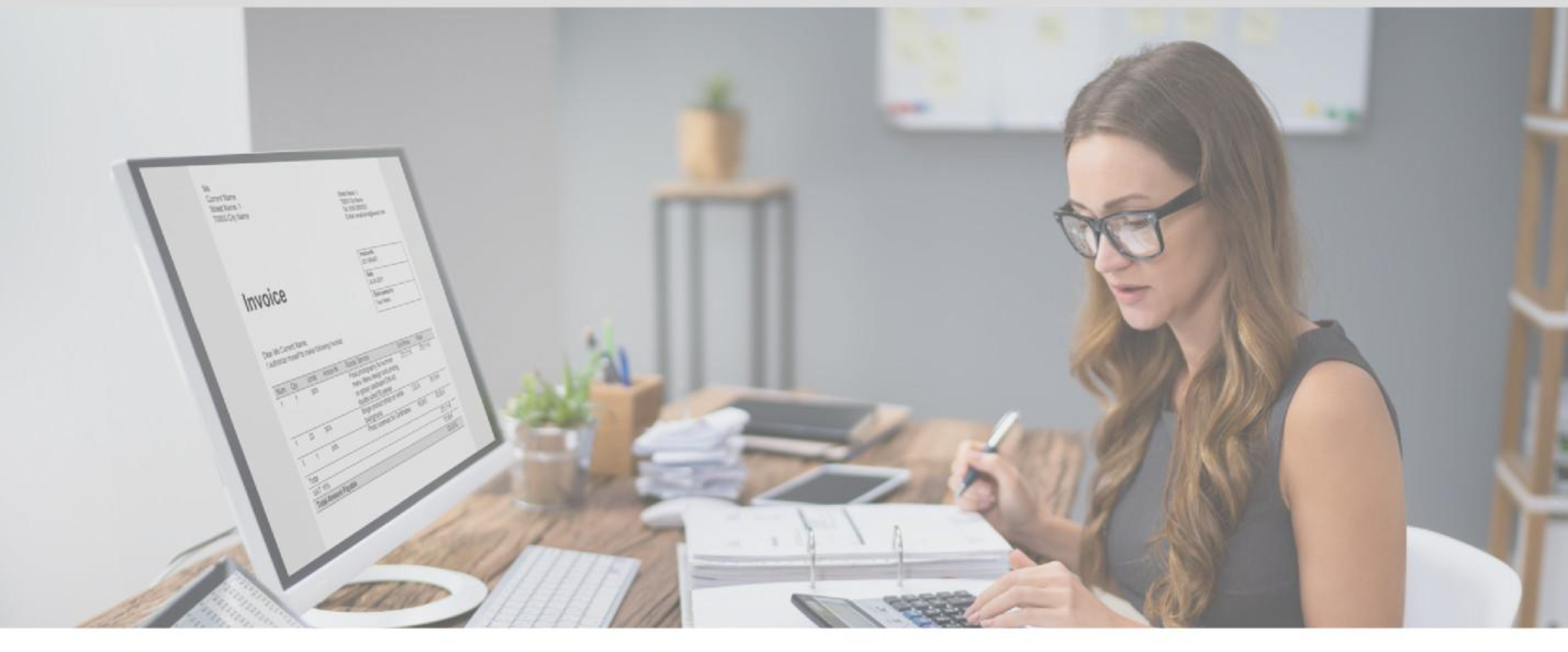
The previous Government's proposals included a 50% reduction in the foreign income subject to UK tax in 2025/26 (the first year of the new regime) for individuals who lose access to the remittance basis from 6 April 2025 and who are not eligible for the 100% exemption for new arrivals. The new Government are not going ahead with this.

UK residents who are not able to benefit from the four-year exemption for new arrivals will be liable to capital gains tax on foreign gains. However, where the remittance basis has been used, UK capital gains tax will only apply to gains arising after the 'rebasing date' which is to be announced at the October 2024 Budget.
Foreign income and gains that arose prior to 6 April 2025 while the individual was taxed under the remittance basis will continue to be taxed when remitted to the UK. This will apply to remittances of pre-6 April 2025 foreign income and gains of individuals eligible for the four-year exemption for new arrivals. A temporary repatriation facility will be available to individuals who have been taxed on the remittance basis which will enable them to remit foreign income and gains arising before 6 April 2025 and pay tax at a reduced rate on the remittance for a limited period after the remittance basis has ended. The length of this period has yet to be announced.

Inheritance tax

The current inheritance tax rules are domicile based. This will cease to be the case from 6 April 2025 when inheritance tax will also become residence based. This change will affect the property within the charge to inheritance tax.

The proposal is that a basic test will apply to determine whether non-UK assets are liable to UK inheritance tax. This will depend on whether the person has been resident in the UK for ten years prior to death or another chargeable event and will be subject to a proviso that will keep the person within the scope of UK inheritance tax for ten years after they leave the UK. The use of excluded property trusts to keep assets outside the scope of inheritance tax will also be brought to an end.



Have You Earned Money from Breeding or Selling Animals?

Important Update from Compass Accountants

If you've been involved in the breeding or sale of animals, whether as a hobby or a business, it's essential to understand your tax obligations. HMRC has recently stepped up its efforts to identify individuals who may have unreported income from these activities. Here's what you need to know to ensure you're staying compliant with UK tax laws.

HMRC's Focus on Animal Breeding and Sales

HMRC has received information from third-party sources concerning income from breeding and the sale of animals. As part of their ongoing investigations, HMRC is now issuing letters to individuals they suspect may have undeclared earnings in this area.

Do You Need to Declare Your Income?

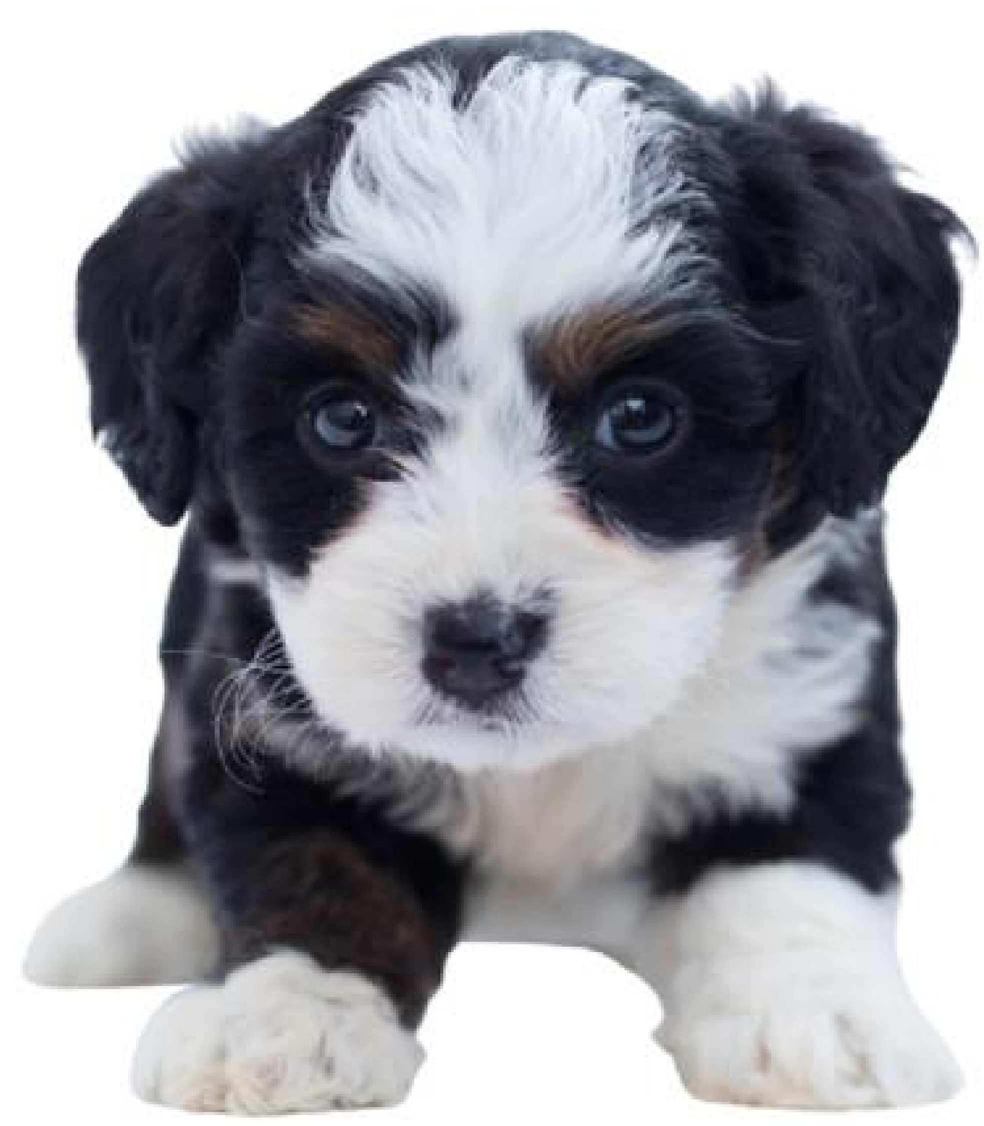
If you've made more than £1,000 in gross trading income from the sale or breeding of animals over the course of a year, you are required to report this income to HMRC. The £1,000 threshold represents the gross income, meaning before expenses or deductions, so it's crucial to keep accurate records of your transactions and report accordingly. If your income from these activities exceeds £1,000, and you haven't declared it, now is the time to act.

Voluntary Disclosure – A Chance to Avoid Hefty Penalties

HMRC is encouraging individuals who may not have reported their earnings to make a voluntary disclosure. Doing so could significantly reduce the penalties and interest that would otherwise be imposed. By coming forward voluntarily, you demonstrate your willingness to comply with the regulations, which HMRC often views favourably. This can result in lower financial consequences compared to waiting until HMRC investigates and contacts you directly.

What Should You Do Next?

If you believe you may have earned more than £1,000 from breeding or selling animals and haven't yet declared this income, we strongly advise you to act now. Preparing a voluntary disclosure can be a complex process, but it's one that will help ensure you remain compliant while minimising penalties. At Compass Accountants, we can help you review your income, determine your tax liability, and guide you through the voluntary disclosure process. Contact us today to discuss your situation, and we'll ensure you take the necessary steps to resolve the matter efficiently.



TAX DIARY

SEPTEMBER

- 1 September 2024- Corporation tax due for accounting periods ended 30 November 2023 where not payable by instalments
    - HMRC reviews advisory fuel rates for company cars
- 7 September 2024- VAT returns and payments due for month or quarter ended 31 July 2024
- 14 September 2024- Corporation tax instalment payments due for large companies
- 19 September 2024- CIS returns due for month ended 5 September 2024
    - EPS due for month ended 5 September 2024 so HMRC can apply a reduction on what is owed from FPS
    - PAYE, NICs, student loan deductions and CIS deductions due for month ended 5 September 2024 paid non electronically
- 20 September 2024- PAYE, NICs, student loan deductions and CIS deductions due for month ended 5 September 2024 paid electronically
- 30 September 2024- Corporation tax return due for accounting periods ended 30 September 2023
    - Deadline for amending corporation tax returns for accounting periods ended 30 September 2022
    - Inheritance tax due for deaths in March 2024

For further information on any of the stories in this month's newsletter, or for any other matter that Compass Accountants can assist you with, please contact us on 01329 844145 or contact@compassaccountants.co.uk

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