

# WATSON



## Making Tax Digital (MTD)

What, when and how

If your business is VAT registered and the turnover for the last year has exceeded £85,000, you should soon receive a letter from HMRC stating that you must comply with the MTD Rules from April 2019.

There were rumours before the Budget that the VAT registration threshold would be reduced but the Chancellor has committed to hold it at £85,000 until April 2022. This will provide some certainty to businesses who need to know whether and when they must comply with the MTD Rules.

The MTD regime requires you to keep all records relating to VAT in a digital format and submit VAT Returns through MTD compliant software. The online VAT Return form on [www.gov.uk](http://www.gov.uk) will be closed to all businesses required to comply with the MTD for VAT regime. This is because HMRC wants to minimise the risk of human error in submission of VAT figures.

The online form will remain open for businesses who have voluntarily registered for VAT and whose annual turnover is under £85,000 but beware, as soon as your turnover for the last twelve months exceeds £85,000 you must comply with MTD from the start of your next VAT period.

You are responsible for keeping your business records in a digital form. This means recording the data from each transaction electronically. You do not have to take a picture of each purchase receipt and sales invoice but you must record the date of the sale, value excluding VAT and the VAT rate applied. Shops which use retail schemes can keep a digital record of the gross daily takings, so do not have to record each sale separately.

A spreadsheet will qualify as a digital record if the VAT data can be transmitted via a digital link to MTD compatible software, which submits it to HMRC.

*The introduction of MTD for VAT is coming very soon so we advise you to be prepared. One key area to address is whether business transactions are currently recorded digitally. If they are not, consideration should be given to recording transactions on a digital basis.*

Some businesses will prefer to use cloud based accounting software which enables people at different locations to access the data simultaneously. The accounting software will also automatically provide a back up of the data.

If your accounting system has not been updated for a while contact us to discuss a more MTD compatible model.

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### OUR SERVICES

- Corporate strategy
- Accounting & audit
- Business development
- Taxation
- Software support & training
- Payroll
- Outsourced management accounting

# Partnership taxation

LLPs under attack from HMRC anti avoidance rules

Changes to partnership taxation in 2014 have had a significant impact on both Limited Liability Partnerships (LLPs) and Partnerships and how profits are taxed.

This has led to a decrease in the popularity in the use of LLPs with corporate partner structures amongst the SME business community and, in some cases, the unwinding of existing LLP structures.

Although the rules are already in force, there will be SMEs impacted by these changes that have not taken steps to mitigate the potential additional burden of tax. As HMRC is now actively policing these rules using targeted tax enquiries, there is an absolute need to review structures sooner rather than later and consider alternative structures where appropriate.

This article highlights two of the main changes:

- ▲ The rules reattributing profits in 'Mixed Member' partnerships including LLPs; and
- ▲ The 'Salaried Members' rules applying to LLPs



## 'Mixed Member' partnerships

The rules for Mixed Partnerships (i.e. those with both corporate and individual members) apply to all partnerships including LLPs. These rules seek to reallocate, for tax purposes, that part of the profits allocated to a corporate partner (or member) which represents profits diverted to it from an individual partner where that individual partner of the same partnership (or LLP) has the 'power to enjoy' those profits.

## 'Salaried Members' of LLPs

The Salaried Members rules are intended to identify members whose terms of service more closely resemble an employment relationship rather than self employment. Such an individual is known under these rules as a 'salaried member'. These rules apply only to UK LLPs, and not to general partnerships or to Limited Liability Partnerships formed overseas.

*At Watsons we can review your business structure, advise on whether it falls foul of the above rules and recommend steps to mitigate the adverse impact of the changes. If you have not already done so, it is vital to take action now.*

*HMRC is beginning to investigate LLP structures to ensure the anti avoidance rules have been considered correctly by business owners. Watsons has the experience to support your business in dealing with an HMRC tax enquiry of this nature.*



# New capital allowances

## Structures and Buildings Allowance

The Government wants to encourage businesses to invest in plant and equipment to help them grow their operations and operate more efficiently.

Where the cost of those items qualify for the Annual Investment Allowance (AIA), 100% of the expenditure can be set against profits in the year of purchase, so the business gets an immediate benefit. The AIA is currently capped at £200,000 per company or group, however, the cap will be raised to £1 million per year for equipment purchased in 2019 and 2020.

When investment is made in buildings the cost cannot be set against business profits as there are no capital allowances available for commercial buildings other than those used for Research and Development (R&D).

The Chancellor has bridged that gap by introducing a new Structures & Buildings Allowance (SBA) to apply to the cost of constructing non residential buildings on and after 29 October 2018. The allowance will allow 2% of the building's cost (excluding land) to be deducted each year.

If the building is sold during its fifty year "tax life" the unclaimed allowance will be available to the purchaser. The cost of the building's fittings and integral features can be claimed as part of the AIA up to that annual limit.



Any excess expenditure must be claimed through the special rate pool which currently provides an 8% allowance. This special rate allowance will be cut to 6% from 1 April 2019.

*The 100% capital allowances for expenditure on energy or water efficient equipment will cease from 1 April 2020. However, the 100% allowance for electric vehicle charging points will apply for costs incurred up to 31 March 2023.*

## Personal tax cuts

### Good news for individual taxpayers

There was good news for individual taxpayers in the Budget; the personal allowance will rise from £11,850 to £12,500 on 6 April 2019. This will provide taxpayers on the basic rate (20%) with an Income Tax saving of £130 per year.

Those who pay tax at higher rates will also rejoice that the 40% band will effectively start at income over £50,000 for 2019-20.

This will not apply to taxpayers in Scotland as they pay tax on earnings and profits at different rates and bands than apply in the rest of the UK. The Scottish tax rates for 2019-20 are due to be announced on 12 December 2018.

Welsh taxpayers will pay Welsh Income Tax from 6 April 2019 but the Welsh tax rates and bands have initially been set to align with those in England and Northern Ireland. Welsh taxpayers should soon receive PAYE codes with a pre-fix "C" (Cymru).





## VAT Option to Tax

### Three key questions

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Commercial properties which are more than three years old will not have VAT attached to their sale or rent unless the owner or leaseholder has opted to apply it. This is called the “Option to Tax”.

There are three key questions to ask about your own commercial property:

- ▲ Have you ever made an Option to Tax on this property?
- ▲ If you did where is the evidence? This would be a copy of form VAT1614 and acknowledgement from HMRC; and
- ▲ If the Option to Tax was made more than twenty years ago, is it now appropriate to revoke that election?

All these questions will become urgent if you wish to sell the property as the buyer’s legal team will ask for evidence that VAT is correctly charged on the sale. Some businesses cannot recover VAT, so they would prefer to buy or lease a building without VAT.

If you believe that an Option to Tax is in place but there is no evidence, you could write to HMRC asking for a copy of the election but do not hold your breath. HMRC

will take weeks to reply and if the election was made many years ago they may no longer have the paperwork. If you have never let the property and VAT was not charged on the original acquisition, it is probably safe to assume that an Option to Tax has never been made.

It is a common misunderstanding that once a property is the subject of an Option to Tax it remains an “opted property” when sold. This is not the case. Each person with an interest in the property can make an independent decision whether to opt to tax or not.

## Entrepreneurs’ Relief curtailed

### Ownership period extended

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When you sell a business or shares in your personal company the gain made on that disposal will normally qualify for Entrepreneurs’ Relief which applies Capital Gains Tax (CGT) at 10%. Up to £10m of gains can qualify for this relief in your lifetime.

For a company to qualify as your personal company you must hold at least 5% of the ordinary share capital and 5% of the associated voting rights. For disposals made from 29 October 2018 you must also have a right to 5% of the net assets of the company and to 5% of its distributable profits.

Currently all the conditions for Entrepreneurs’ Relief must be met for at least one year ending with the date of sale or, if the business has ceased, to the last day of trading. From 6 April 2019 all of the qualifying conditions must be met for at least two years ending with the date of disposal or cessation of trading.





# Tax exemption for homes clipped

## Tax free period reduced

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When you sell your only or main home you expect any gain you make to be free of Capital Gains Tax (CGT). However, that CGT exemption only applies if you have occupied the property as your main home for the entire period of your ownership.

If you move out of your home before it is sold the gain accruing to the final period when you were not living there would be subject to CGT. However, the tax rules allow up to eighteen months of the final ownership period to be CGT exempt even if you were not living in the property.

HMRC is proposing to cut this final exempt period to nine months for properties sold from 6 April 2020. If the owner, or their spouse, is disabled or has moved into a residential care home, the final exempt period is extended to thirty six months.

If you let out a property which had been your main home at some point you can claim Lettings Relief to reduce the taxable capital gain by up to £40,000. Lettings Relief is capped at the amount of relief due for the time (usually a different period) in which you occupied the property as your main home.

HMRC wants to restrict Lettings Relief to cover only periods in which the owner occupied the property while part of it was let. Homeowners who move and then let out their former home will be hit by this change in CGT relief which is due to take effect for properties sold on or after 6 April 2020.

## IR35

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### Rollout of Rules postponed

Where an individual works through their own personal company to provide services, such as IT consultancy, that company must abide by the “IR35” rules which HMRC calls “off payroll working”.

IR35 requires the individual to check whether they would be treated as an employee of their customer, if their personal company and any other intermediaries did not exist in the supply chain. If the relationship with the customer is effectively employment, the income from the contract should be treated by the personal company as the individual's salary, subject to PAYE and NIC.

For contracts in the public sector the final customer (the public body) makes the decision about the IR35 status of the contractor. Where IR35 applies the fee payer in the supply chain should deduct Income Tax under PAYE and employees' NIC at 12% from the amount invoiced by the personal company. Some public bodies have also incorrectly deducted employer's NIC at 13.8% from the invoiced amount.

HMRC is convinced that many small companies in the private sector do not follow the IR35 rules to the letter as, by remaining outside of IR35, the individual retains more income from their company. HMRC has proposed that large businesses in the private sector should make the IR35 status decision on behalf of their contractors.

This switch will apply from 6 April 2020 but only where the final customer is a medium sized or large business.

If you contract through your own company, you should start planning for this change now.

# Chestnut Tree House

A fabulous fundraising year!

For the  
**NOW**



As 2018 comes to a close so does our year of fundraising in support of Chestnut Tree House.

We have had a wonderful year full of challenges with much laughter and times of quiet contemplation when we remember why we decided to support this charity. The staff and charitable coordinators at Chestnut Tree House work relentlessly to provide support for families and children with life limiting illnesses.

We are so pleased we have been able to go some way to help.

*It is with great pleasure that we are able to confirm our overall fundraising total of in excess of £4,000.*

We would like to say a HUGE thank you to everyone that donated and helped us reach this amazing figure.



## Dates for your Diary

2019

- 1 January** Due date for payment of Corporation Tax for p/e 31-3-18
- 31 January** Deadline for submitting 2017/18 Self Assessment Returns  
Capital Gains Tax payment for 2017/18  
Balancing payment for 2017/18 Income Tax/ Class 4 NICs due
- March** Chancellor's Spring Statement
- 1 March** New Advisory Fuel Rates for Company car users apply from today
- 3 March** 5% late payment penalty on any 2017/18 outstanding tax due on 31 January 2019 and still remains unpaid
- 31 March** End of Corporation Tax financial year

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