AUTUMN 2019 | ISSUE 35

WATSON

HMRC Applies Brakes to Domestic Reverse Charge

HMRC has announced a one year delay to the introduction of the VAT Domestic Reverse Charge (DRC) for building and construction services

The DRC was set to come into effect on 1 October 2019. It has now been pushed back twelve months to 1 October 2020, due to fears that businesses in the construction sector are not yet ready.

The DRC does not change the VAT liability: it changes the way that VAT is accounted for. In future the recipient of the services, rather than the supplier, will account for VAT on specified building and construction services.

This major change entails adaptation to invoicing and accounting systems, and a negative impact on cashflow for suppliers.

The DRC is a business to business charge, applying to VAT registered businesses where payments are required to be reported through the Construction Industry Scheme (CIS). It will be used through the CIS supply chain up to the point where the recipient is no longer a business making supplies for specified construction services. The rules refer to this recipient as the 'end user'.

Broadly, the DRC means that a contractor receiving a supply of specified construction services has to account for the output VAT due – rather than the subcontractor supplying the services. The contractor will then be able to deduct the VAT due on the supply as input VAT, subject to the normal rules. In most cases, no net tax on the transaction will be payable to HMRC.

Overall, the change may mean that the construction sector is likely to be subject to considerable HMRC scrutiny in the foreseeable future. Under the rules, for example, some subcontractors with VAT to reclaim on inputs but no VAT to charge on outputs, will regularly receive VAT refunds. A regular repayment position could trigger a VAT inspection.

The Government cites concerns that some businesses are not yet ready to implement the change – and possible coincidence with Brexit – as the reasons for the delay.

Where businesses have changed their invoicing to be DRC compliant and cannot reverse this in time, HMRC will take the change in implementation date into account should genuine errors occur. Businesses which have now adopted a monthly VAT Return cycle, in order to mitigate any cashflow disadvantage, can change back to quarterly reporting during the interim if they prefer.

If you would like assistance, please do contact us. Despite the delay, the Government is still committed to the DRC and businesses which have not yet assessed how they need to comply should still do so.

CONTENTS

Keeping Pace with Property Tax Changes 2
Off Payroll Changes: Are You Prepared 3
Making Tax Digital for VAT: Re examining the Key Points 4
Minimising your NIC liability 4
Brexit and its impact on workforces 5
New Members of the WA Team 6
Dates for your Diary.......................6

OUR SERVICES

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

Hailsham | Brighton
Head office: 30-34 North Street, Hailsham, East Sussex, BN27 1DW
01323 842 119 | mail@watsons.co.uk | watsons.co.uk

watson associates

Keeping Pace with Property Tax Changes

Disposing of a property? There are important tax changes on the horizon.

The date to keep in mind is 6 April 2020. Disposing of a property on or after this date means you will need to factor in new Capital Gains Tax (CGT) rules.

Broadly speaking, Private Residence Relief (PRR) means there is usually no CGT to pay on the sale or disposal of your main or only residence. To 'better focus' PRR on owner occupiers, the 2018 Budget announced changes to the final period exemption and letting relief. You may want to consider your affairs now in the light of these changes.

Taking a look at the final period exemption

Currently, the final period exemption means you are not usually liable to CGT for the last eighteen months of ownership, even if you don't actually live there. This was intended to provide protection for someone moving to a new main residence when there was difficulty selling the original home. However, from April 2020, the final period exemption will be cut to nine months. The change could create CGT consequences for significantly higher numbers of property transactions. If buying a new property before selling the old, it will be important to try to sell within nine months to avoid a possible CGT bill.

There is an exception for those in, or moving into, care home accommodation or those with a disability. Provided they or their spouse do not own any other residences there is a final thirty six month deemed occupation period, which is not changing.

A word on letting relief

At present, letting relief gives up to £40,000 relief (£80,000 for a couple who jointly own the property) for someone letting part, or all, of a property which is their main residence, or was the former main residence at some point in their period of ownership. But, under the new regime, letting relief will only be available where you jointly share occupation with a tenant. These new rules will apply for disposals from 6 April 2020, regardless of when the period of letting took place, even if before April 2020. This is likely to considerably reduce its scope.

Changes from 2020

From 6 April 2020, there is also a major change to the deadlines for paying CGT when disposing of a residential property. This may apply when a second home, an inherited property, or a rental property is sold or otherwise disposed of. Individuals, trustees and personal representatives should all be aware of the forthcoming change.

In future there will be a thirty day window after the completion date for the property disposal, to file a Return and calculate and make a payment on account of the CGT bill. This changes the current procedure, with payment made as part of the self assessment cycle and CGT payable by 31 January of the tax year following the year of disposal. If no payment is due, reporting will not be required. This would be the case if, for example, PRR is available in full.

Tax and property are complicated and it is always prudent to discuss the potential tax implications of any property transaction. For peace of mind, please do not hesitate to contact us.

Off Payroll Changes: Are You Prepared?

From April 2020 a major shake up of the off payroll (IR35) rules is expected

Draft legislation has already been published, though final details and HMRC guidance are still to come.

The new regime will affect you if you work via your own Personal Service Company (PSC). Off payroll workers should be aware that their clients are likely to investigate the profile of the contractor workforce more closely than before as part of a general review of compliance, strategy and spend. However, the changes could be felt more widely. Anyone supplying personal services via an 'intermediary' could be within the scope of the IR35 rules. An intermediary can be an individual, a partnership, an unincorporated association or a company.

Will you be affected?

The change could impact you if you supply personal services to large and medium organisations in the private and voluntary sector. If the client is a 'small' business, the rules are unchanged. A company is considered 'small' if it meets two of these criteria:

- its turnover is not more than £10.2million
- it has not more than £5.1 million on its balance sheet
- it has fifty or fewer employees

If your contract is with an unincorporated organisation, the new rules only apply if its annual turnover is more than £10.2 million.

Determining employment status

Under the new rules, responsibility for making the decision as to whether IR35 rules apply passes to the business you contract for. The key question is whether, if your services were provided directly to that business, you would then be regarded as an employee.

HMRC has an online 'Check Employment Status for Tax' tool (CEST), which can be found at **www.gov.uk/guidance/check-employment-status-for-tax**, and undertakes to stand by the results if information provided is accurate and given in good faith.

In the future, your client will have to give you the reasons for its status decision in a 'Status Determination Statement' (SDS). If you disagree, you can challenge the status determination with the business and it should respond within forty five days, either withdrawing or upholding the decision, again supplying reasons.

Looking to the future

Significant tax implications arise if IR35 applies, as the business or agency paying you will calculate a 'deemed payment' based on the fees charged by your PSC. Broadly, this means you are taxed like an employee, receiving payment after deduction of Pay As You Earn (PAYE) and employee National Insurance Contributions (NICs). If you operate via a PSC, the PSC will receive the net amount which you can then receive without further payment of PAYE or NICs. The potential tax advantages of working under such a contract – especially for PSCs – are much reduced.

This is a good time to take stock of your options. Are clients likely to query your employment status? Should you consider restructured work arrangements or renegotiating fees? If working via a PSC, is it still the best business model? With clients checking that contracts comply with the new rules, employment status for contractors is likely to come under increasing scrutiny across the board.

We would be delighted to talk through your options and tax consequences. Please do get in touch.

Making Tax Digital for VAT: Re Examining the Key Points

Making Tax Digital for VAT (MTD for VAT) is up and running

Most VAT registered businesses with taxable annual turnover above £85,000 will now be signed up to HMRC's new system. This requires digital records to be kept and VAT Returns to be filed using MTD for VAT compliant software. As the system 'beds in' there are some key points to remember.

Deferred businesses

MTD for VAT is still being rolled out for some businesses. The start date was deferred for trusts, not for profit organisations not set up as companies, VAT divisions and VAT groups and some other businesses. HMRC should have notified these businesses of their deferral directly but MTD for VAT rules apply for the first VAT Return period starting on or after 1 October 2019.

Looking ahead

Businesses submitting Returns should be aware that, as an online service, MTD for VAT is subject to occasional downtime. Downtime should usually be flagged up in advance and service availability can be checked here: **bit.ly/2lZKdGl**. If filing your own VAT Return, it would be prudent not to leave this until the last minute.

HMRC has made concessions regarding digital record keeping for the initial stage of the new regime, known as the 'soft landing' period. This means that the requirement for digital links joining all parts of a business's functional compatible software is eased for the first year of mandation. The use of cut and paste or copy and paste, is also permitted instead of a digital link, but only within this period. Requirements are explained under Point 4 in VAT Notice 700/22: **bit.ly/2ktXC95**.

Businesses taking advantage of the soft landing period need to be confident that they can transition to full digital competence in 2020. We would be happy to advise further.

Tax Tip!

Minimising your National Insurance Contribution (NIC) liability

NICs are essentially a tax on earned income.

The NICs regime divides income into different classes: Class 1 contributions are payable on earnings from employment, while the profits of the self employed are liable to Class 2 and 4 contributions.

Many strategies for saving NICs are available to business owners. An employer may wish to increase the amount they contribute to company pension schemes; make use of share incentive plans; or disincorporate and operate as a sole trader or partnership. Business owners could also opt to pay a bonus to reduce employee NICs or pay themselves dividends instead of bonuses.

We can help you to minimise your NIC liability. Please get in touch for more information

Brexit and its impact on workforces

EU Nationals currently contribute over two million people to the UK workforce

Government policy regarding immigration and free movement is a rapidly changing area.

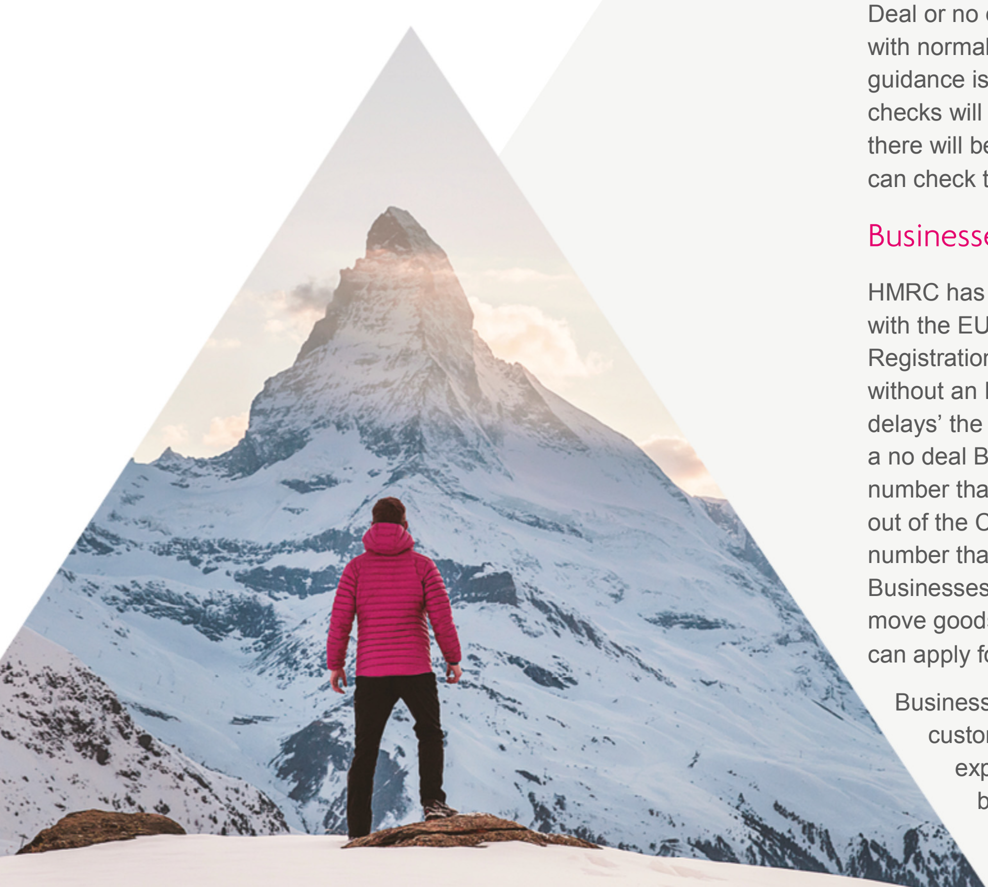
To keep up to date, a regular check of the Brexit preparation pages on gov.uk (**www.gov.uk/brexit**) or signing up for email alerts (**bit.ly/2ky8lzb**) is recommended. The House of Commons Library also publishes useful and clearly written Brexit news items: **bit.ly/2lAARk4**.

Workers: Checking the right to stay

The Government stated that 'freedom of movement as it currently stands will end on 31 October when the UK leaves the EU'. If the UK leaves the EU without a deal workers will need to take action within a short timeframe.

Citizens of the EU, European Economic Area (EEA) and Switzerland or those with such a family member living in the UK before it leaves the EU, should check what they need to do in order to stay after Brexit.

For most such workers and their family members, this will involve applying to the EU Settlement Scheme (EUSS) which gives the ability to continue living, working and studying in the UK. However, there is no need to apply where someone has indefinite leave to enter or remain in the UK. Those with British or Irish citizenship – including 'dual citizenship' – do not need to apply.



Employers are not obliged to assist but HMRC's Employer Toolkit is designed to facilitate employers providing advice and support to relevant staff.

Employers: Other considerations

The Government is currently reviewing arrangements for EU, EEA and Swiss citizens arriving in the UK after Brexit as part of its plans for a future points based immigration system but until 31 December 2020, such citizens can continue to enter, live and work in the UK as they do now. For those wanting to stay beyond this, a temporary three year UK immigration status, European Temporary Leave to Remain, is being planned. Thereafter, application under the points based system, expected in 2021, would be required.

Employers should be aware of key deadlines and immigration rules applying at any point, as workers inadvertently breaching immigration procedures could become illegal workers.

Deal or no deal Brexit, employers should also carry on with normal right to work checks. Further Home Office guidance is expected, clarifying when right to work checks will change. It is not anticipated, however, that there will be any change until 1 January 2021. Employers can check the current position here: **bit.ly/2kmc5nD**.

Businesses trading with the EU

HMRC has advised that, post Brexit, businesses trading with the EU will require an Economic Operator Registration and Identification (EORI) number. Firms without an EORI number may face 'increased costs and delays' the Government recently warned. In the event of a no deal Brexit, businesses will need a twelve digit EORI number that starts with GB in order to move goods in or out of the Country. Firms that already have an EORI number that starts in GB can continue to use it. Businesses do not require an EORI number if they only move goods between Northern Ireland and Ireland. Firms can apply for an EORI number here: **bit.ly/2qTeFiW**.

Businesses are also advised to decide whether a customs agent will be used to make, import and/or export declarations or whether declarations will be made by the business via software.

New Members of the WA Team

A warm welcome to recent additions to the WA family!

Over the last few months we have had the good fortune to attract more dedicated staff to our team of professionals.

We take pleasure in introducing to you:

Aaisha Braithwaite *Trainee Accountant*

Alan Bishop *Corporate Team*

Charlie Dabbs *Trainee Accountant*

Harry Pearson *Trainee Accountant*

Jayne Page *Bookkeeper*

Joanne Thompson *Payroll Assistant*

Joe Light *Trainee Accountant*

Lewis Humphreys *Trainee Accountant*

Phil Cottington *Corporate Team*

Tracy Brown *Receptionist*

Vicky Watterson *Bookkeeper*

Dates for your Diary

2019

2 November	Deadline for submitting P46(car) for employees whose car/fuel benefits changed during the quarter to 5-10-19
6 November	Chancellor delivers his 2019 Budget
19 November	PAYE, Student Loan and CIS deductions are due for the month to 5-11-19
1 December	Advisory Fuel Rates (AFR) for company car users apply from today
19 December	PAYE, Student Loan and CIS deductions are due for the month to 5-12-19
30 December	Online filing deadline for submitting 2018/19 Self Assessment Return if you require HMRC to collect any underpaid tax by making an adjustment to your 2020/21 tax code
31 December	End of CT61 quarterly period
	Filing date for Company Tax Return form CT600 for period ended 31-12-18

2020

1 January	Due date for payment of Corporation Tax for p/e 31-3-19
14 January	Due date for Income Tax for the CT61 quarter to 31-12-19
19 January	PAYE, Student Loan and CIS deductions are due for the month to 5-1-20
	PAYE quarterly payments are due for small employers for the pay periods 6-10-19 to 5-1-20
31 January	Deadline for submitting 2018/19 Self Assessment Return (£100 automatic penalty if your Return is late) and the balance of your 2018/19 liability together with the first payment on account for 2019/20 are also due
	Capital Gains Tax payment for 2018/19
	Balancing payment for 2018/19 Income Tax/ Class 4 NICs due. Class 2 NICs also due.
March	Chancellor's Spring Statement
31 March	End of Corporation Tax financial year