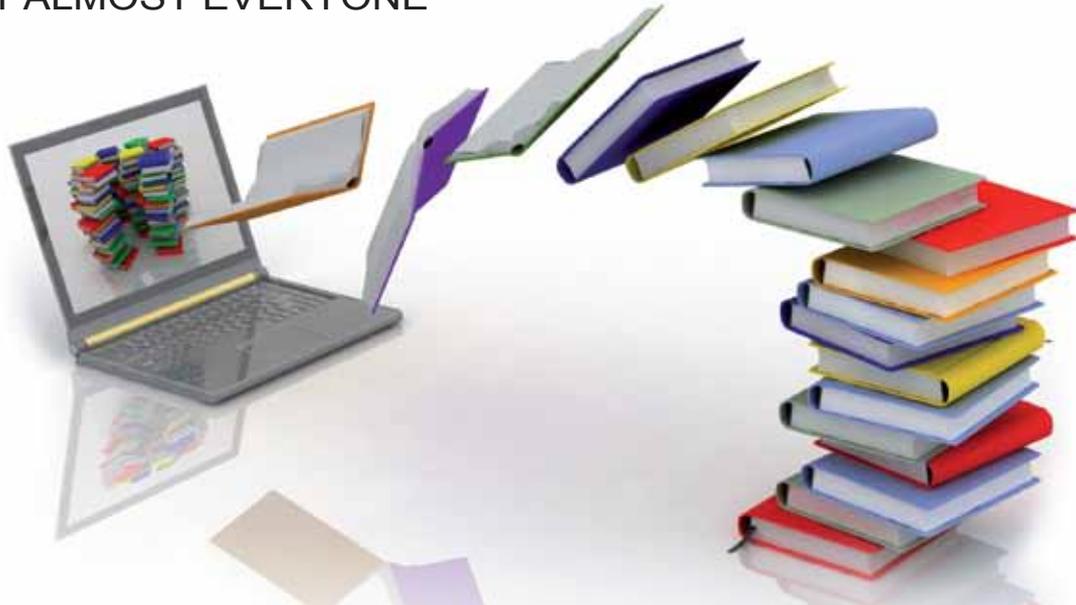


## Radical tax system proposal TO AFFECT ALMOST EVERYONE



HM Revenue and Customs currently receives a great deal of information digitally; 85% of self assessment tax returns are filed online, employers are required to submit their payroll data, banks and building societies send in interest details, contractors and sub-contractors must file monthly returns. Every tax payer already has a digital account with the Revenue and under new proposals all taxpayers, with some isolated exceptions, will be required to submit their data to the Revenue electronically from April 2018.

The requirement to digitally file is planned to be phased in from this date and will apply to non incorporated businesses, sole traders, partnerships and landlords with turnover exceeding £10,000. Limited companies will need to digitally file from April 2020.

Exemptions will be available for taxpayers with turnover below £10,000, charities and community amateur sports clubs and a few specific classes of taxpayers.

The Revenue has held discussions about digital filing with accounting software houses in order to ensure that software will be compliant such that it can produce and be able to file the information required.

There will be software for different types and sizes of businesses, as well as landlords, that will range from simple recording of receipts and payments to more sophisticated software for VAT registered traders. The software houses will have to provide a free version but this is likely to be basic and it is unlikely that Excel spreadsheets will comply.

The requirement will be to upload summary data quarterly. From April 2019 VAT registered businesses must provide VAT information in that quarterly upload, so doing away with the current system of filing VAT returns.

This is a bold and radical move by the Revenue and the proposal is being pushed hard for 2018 implementation. Many have commented that the plan is flawed, brings many foreseeable problems and should be delayed, but at the moment we all need to be prepared. The first twelve months are likely to be penalty free (for late submissions etc) but thereafter those failing to comply can expect penalties.

### What will this mean in practical terms?

All taxpayers will have to use commercially available software of some sort to record their business transactions

and this must be done at least quarterly but more probably on a more regular basis.

Each quarter the summary accounts information must be uploaded to the Revenue. After the last quarter you and your accountant will have nine months (i.e. until 31 December) to review the information, correct any errors, make claims for tax allowances and reliefs, and then make a final upload along with a declaration.

All information will be collated and shown in summary form on the individual's digital account, allowing provisional

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estimates of tax liabilities to be viewed along with actual liabilities for VAT. Tax payments along with any CIS credits, and how these are offset against liabilities, will be shown, as will any amounts due for payment.

For smaller businesses the cash basis of accounting will be acceptable, i.e. receipts and payments with no adjustment for stock movements, amounts owed to or from the business, or depreciation.

Accounts will still be required for the majority of our clients in order to review business performance and for lending requirements.

The Revenue takes the simplistic view that all taxpayers are capable of compiling and submitting this information, but as accountants we know that this is not true!

Our wide and diverse client base includes some who are computer literate, some not; but few have knowledge of accounts and the tax system, and what can or cannot be claimed as expenses. The Revenue will not be able to assist with tax planning or ways to legally reduce tax liabilities.

Many clients keep manual records or use spreadsheets and will need to change to a software package. For those already using Sage, Quickbooks, Xero, Kashflow or similar, new versions will be released with added features. However, we are preparing to help our clients to compile quarterly information and year-end figures

and make the final submission so that the correct tax is payable. We expect many will want us to review the figures before details are submitted to the Revenue.

As accountants we have given considerable thought to this change and the new process. We know that we need to offer clients a workable solution and to that end we already have available cloud based accounting software, which will be a good solution for those currently using manual or non-compliant systems. For those using software such as Sage, we can set up remote access - either via a network link or a cloud based system to help review and tidy data before submission. Sage and other providers offer cloud based options payable by monthly fee, negating the need to buy and install software on your own computer.

There has been resistance to cloud based systems due to security concerns, but recent improvements in data storage and security means that your information is potentially far safer in the cloud than it is in your own office. The added advantage is that secure log in procedures allow access from anywhere, and software is automatically updated to the latest versions.

The major change for many clients is the need to ensure all business data is entered on a Revenue compliant system on a regular basis, and not left until the year end.

As with every change there will be resistance but the Revenue is determined to set up a world-leading digital tax system, which all taxpayers will "join". Whilst we believe this is radical and fraught with problems, we cannot halt the process and will be doing everything we can to help clients comply.

As for costs, at this stage we anticipate there will be additional expense for clients that do not currently run digital systems. For those that do, it is likely that the updated compliant software will come at an additional cost. The 'free' version will meet some people's needs but otherwise you could expect to pay £5 per month for a basic system and up to £50 for something more sophisticated.

For clients who do not want to computerise their existing manual systems or do not want to do the book keeping, we are looking at a cost effective solution that will provide a book keeping and filing service for you.

We will be talking to all our clients and will discuss costings once they are available.

More about this topic will follow in future articles, but if you are concerned about the impact it will have on your own tax affairs or that of your business, contact Andrew or Jackie, who will be pleased to help.

### Complain online!

It has always been possible to complain to the Revenue about your self-assessment and PAYE, but now you can do so online! A new online form has been added to their complaints procedures. To see the form, and the guidance, visit [www.gov.uk/guidance/complain-to-hm-revenue-and-customs](http://www.gov.uk/guidance/complain-to-hm-revenue-and-customs).

### Lifetime ISA delay

In the last issue of 'Balancing Business' we wrote about the introduction of the new lifetime ISA. Now pension providers and banks are asking the Government to delay the launch - scheduled for April 2017 - as they are warning that they will not be ready by then. The Financial Conduct Authority has yet to comment.

### Help for employers

If you are an employer, do you know that the Revenue produces updated guidance on its website every two months? Their employer bulletin contains a wealth of useful information. Read more about it and access the link from our website: [www.bakerchapman.co.uk/news/latest-news-for-business](http://www.bakerchapman.co.uk/news/latest-news-for-business).

## Marginal rates of tax



Tax is never simple! The masses of rules and regulations are there to ensure we all pay a fair amount of tax. Most people know that there are three rates of tax: 20% basic rate and 40% or 45% for higher rate taxpayers. If only life were that simple. In fact there are many rates of tax depending on income, allowances and reliefs, whether you have children and how old you are.

Now that personal allowances, child benefit and pension relief are being withdrawn at various levels of income, there are many marginal points where for every extra £1 you earn you may lose more than 45% or even more than 100%.

Being aware of this and recognising and avoiding these tax points, if you can, is sensible tax planning. Where we have the information we discuss this with clients but there is nothing we can do after the event. If your income or circumstances change from year to year, check with us to see if you will fall anywhere near the trigger points

and whether there is anything you can do to avoid these punitive marginal rates. Here are some areas to note:

- The 40% tax rate starts when income reaches £43,000
- Child benefit starts to be withdrawn when one spouse's income exceeds £50,000
- Personal allowances start to be withdrawn when income exceeds £100,000
- The 45% rate of tax starts when income reaches £150,000

Tax laws have allowed for some very unfair trigger points and high marginal rates of tax to be charged. This is mainly a result of new reliefs and allowances being introduced only in later years to either be capped or means tested; the resulting change creates very odd marginal rates.

Individuals can remedy the position by making pension contributions, paying gift aid

or, if possible, delaying income so it falls in a later period. However, planning must be done in the tax year to which it applies - any later is not allowed!

Many years ago, the marginal rate of tax was as high as 97.5% with the investment income surcharge forcing many wealthy people to move overseas. But that was long ago! Despite the rhetoric that tax is getting simpler and fairer, we still have anomalies that create these very unfair high rates of tax and affect middle earners as well as the wealthy. All we can do is watch for problem areas and see if they can be avoided.

We have only mentioned Income Tax but when VAT, National Insurance and other taxes are considered there are many more trigger points. Whether the Government will ever address and rectify these matters is a moot point, but it does demonstrate the need for awareness and planning.

## Benefits in kind



If assets owned by an employer are made available to directors or staff there will usually be a benefit in kind tax charge. The most common concerns cars and vans but loans, accommodation, shopping vouchers and many other things are included. Generally, if the employer provides money or 'money's worth' then that value is treated as taxable.

Benefit charge for cars is calculated by reference to the manufacturer's list price when new. Also taken into account is the Revenue's published scale rates based on CO2 emissions. For second-hand cars the price paid is irrelevant, so if you are provided

with a £10,000 car where the list price was £30,000 the tax charge will be calculated on £30,000. In addition, a fuel benefit is charged where fuel is paid for by the employer.

Nowadays, punitive tax costs mean owner managers should generally keep cars out of their company. The argument that the car is only used for business (a pool car) is difficult as the test to determine whether a benefit arises is judged on whether the vehicle is *available* for private use, not whether it is actually used. In reality, it is tricky to prevent a car being available, although where the correct documentation and procedures are in place and it is only

insured for business, it may be possible.

In some cases company cars for directors can be tax and cost effective but generally the tax outweighs any saving.

The taxable benefit for a van and its fuel is far lower than for cars, and there are many attractive "vans" on the market. The four-by-four crew cabs have always been popular and are an example of vans that make acceptable substitutes for cars. Take care though, as the vehicle must qualify as a van. You must look carefully at the vehicle you are buying, consider its original construction and any later conversions. A list on the Government website gives vehicles accepted as vans, but beware, as it is not definitive! For example, Land Rover produce many variants of the Defender, some of which are classed as vans and some not.

The advice is to consult us before you make your decision about buying your company vehicles.

# Capital gains tax

## KNOW YOUR EXEMPTIONS!



In this year's March budget, the Chancellor announced a reduction in the mainstream capital gains tax rates. As is often the case, there are caveats, and so we thought it would be useful to provide a reminder of the various current capital gains tax rates.

The annual exemption allows an individual to make up to £11,100 capital gain per tax year without a tax liability. This is available to each spouse or civil partner, therefore double this amount is available for jointly owned assets. The exemption cannot be carried forward if unused.

The mainstream rates are now 20% for higher rate taxpayers and 10% for basic rate taxpayers, but how is this calculated?

Capital gains are added to the individual's income to determine the rate. So, if income is £25,000 and the higher rate threshold is £43,000, then £18,000 of the gain over the annual exemption will be taxed at 10% and the remainder at 20%.

This seems good news for residential property landlords who, after the property boom of recent years, are sitting on large gains. However, the Chancellor specifically removed those people from the reduced rates. Gains on residential properties remain taxable at 18% and/or 28% depending on the taxpayer's income, as described above. The increase to 20% in the mainstream tax rates can be avoided by higher rate taxpayers if they are able to take advantage of two business related reliefs.

Entrepreneurs Relief ensures that all of the gain is taxed at 10% for the sale of business assets or shares in personally owned companies. There are numerous rules and definitions and so advice should be sought to ensure compliance.

A similar but wider relief has been introduced called Investors Relief. Again, this ensures the 10% tax rate for gains on the sale of shares where the shareholder originally purchased shares by allotment. This relief aims to encourage investment in unlisted companies. Again, 'the devil is in the detail', so speak to us for more information.

## FINANCIAL REPORTING STANDARDS

Company accounts are governed by strict legislation in company law, generally accepted accounting practice and specific financial reporting standards. New regulations and guidelines - presented in Financial Reporting Standards FRS 101 to 105 - became effective for accounts commencing on or after 1 January 2015.

For most of our corporate clients FRS102 is the relevant standard. The main changes affecting clients include the treatment of property, leases and lease incentives, intangible assets, foreign currency translation, and loans and derivatives that include forward currency contracts.

We have had to get to grips with these specialised and technical changes, and their impact on the software we use. Layout and content in most company accounts has changed; previous year's figures and reserves have to be restated and tax consequences may result.

For some clients the effects are quite significant. Where the changes affect you, we will have already met with you, or be meeting very soon, to explain the process and the tax consequences.

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The contents of this newsletter are for guidance only and further professional advice should be obtained before acting upon any information herein.

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## Dedham Run sponsorship



The Dedham Run has been in existence for around 25 years. We were delighted to continue as one of the sponsors of the event this year.

The 10 kilometre run took place on 18 September, along with a 3K fun run. Our congratulations go to everyone who took part and especially to those who won their categories.

*Left: runners preparing for the start of the race.*