

# Henderson Black & Co

CHARTERED ACCOUNTANTS AND BUSINESS ADVISERS

## **MAKING TAX DIGITAL**

### ***Moving to a digital age***

Under the Government's Making Tax Digital strategy, most businesses will be required to keep track of their tax affairs digitally and to update HMRC at least quarterly. To comply with your requirements in the new digital age, you will need to keep digital tax records and record and categorise your receipts and expenses. Apps and software will be available for these purposes. It will be essential that you update your records on an on-going basis so that you are able to provide the information to HMRC on time for each quarterly update.

### ***Exemptions***

If you are an unincorporated business or landlord with an annual turnover below £10,000 you will be exempt from the digital tax obligations.

### ***Cash basis for larger traders***

If your turnover is below the VAT registration threshold (currently £83,000) you can opt to prepare your accounts using the cash basis (money in and money out) rather than using the more usual accruals basis. The opportunity to use the cash basis is to be extended to larger unincorporated business as part of the proposals for moving to a digital tax world. Speak to your adviser to discuss whether a move to the cash basis is for you.

### ***Cash basis for landlords***

The opportunity to use the cash basis is to be extended to some landlords in order to simplify the tax rules under Making Tax Digital. If you are an individual business, or a partnership where all the partners are individuals, you count as an unincorporated property business and you will be able to opt to use the cash basis. Speak to your adviser to find out what is involved and if this is likely to be for you.

### ***Pay as you go***

Once Making Tax Digital is up and running, taxpayers will be able to make voluntary payments on account of their tax liabilities throughout the year. This may help you in managing your cashflow and ensuring that you are able to meet your tax liabilities on time.

### ***Getting ready for Making Tax Digital***

Although you will not need to start providing HMRC with digital updates until April 2018, it is not too early to start planning for the transition to a digital tax world. It is advisable to discuss with your tax adviser sooner rather than later what Making Tax Digital will mean for you and what changes you need to make to your existing processes to ensure that you will be able to comply with your digital reporting requirements.

## **FARMERS**

### ***New averaging rules***

Averaging allows farmers to smooth out fluctuations in their profits (and consequently in their tax bills). New rules introduced from 6 April 2016 mean that for 2016/17 and subsequent tax years, farmers will be able to choose to average profits over two years or five year. Previously, it was only possible to average profits over two years.

### ***Two-year averaging***

Where 2016/17 or a later tax year is the last year of the claim, full averaging applies where the profits of the tax year with the lowest profits are 75% or less of the profits for the higher tax year. Where full averaging applies, the profits for each tax year are simply 50% of the total profits for the two tax years when added together.

### ***Five year averaging***

It is now possible to average profits over a five-year period where the last tax year of the five tax years to which the claim relates is 2016/17 or a later tax year. However, profits can only be averaged if they meet a 'volatility test'. Speak to your tax adviser to see if you qualify. The effect of the claim is to treat the profits for each year of the claim as being equal to one-fifth of the total profits for the five-year period.

## **LANDLORDS**

### ***Relief for interest***

New rules start to take effect from 6 April 2017 which restrict the amount of tax relief that landlords can claim in respect of interest and other finance costs. For 2016/17 and earlier tax years the rules are simple – you just deduct any mortgage interest and any finance costs from your rental income when working out your taxable profit. However, the way in which relief is given for interest and finance costs is moving from the current system where you just deduct it from income to one where relief is given as a ‘basic rate tax reduction’. This means that instead of deducting interest costs from rental income, you deduct 20% of the interest and finance costs for the tax year from the tax that you have to pay on your rental profits for that year.

### ***Phasing in the changes***

The new rules are being phased in over a four-year period. During the transition period, you will get relief for some of your interest costs as a deduction against your rental income and the balance as an income tax reduction. During the period from 2017/18 to 2020/21, you will be able to obtain relief as follows:

- In 2017/18, you will be able to deduct 75% of your interest and other finance costs from your rental income with relief for the remaining 25% being given as a basic rate tax reduction.
- In 2018/19 you will be able to deduct 50% of your interest and other finance costs from your rental income with relief for the remaining 50% being given as a basic rate tax reduction.
- In 2019/20 you will be able to deduct 25% of your interest and other finance costs from your rental income with relief for the remaining 75% being given as a basic rate tax reduction.
- For 2020/21 and later tax years relief is only available as a basic rate tax reduction.

### ***Loss of higher rate relief***

Deducting interest from rental income provides relief at the taxpayer’s marginal rate of tax. However, moving to a system of relief in the form of a basic rate tax reduction means that relief is only available at the basic rate. If you are a higher or additional rate taxpayer you will gradually lose tax relief at the higher and additional rates. Speak to your tax adviser about what these changes mean for you.

### ***SDLT***

From 1 April 2016 you have to pay a supplement of 3% on purchases of additional residential properties which cost more than £40,000. Where you buy an additional residential property which costs more than £40,000, SDLT is payable at 3% on the first £125,000 of the purchase consideration, at 5% on the next £125,000, at 8% on the next £675,000, at 13% on the next £575,000 and at 15% on anything over £1.5m. The new rates will affect you if you have a portfolio of let properties or if you buy a second home. Speak to your adviser about how the new rates may affect any planned purchase and also the relief available if you sell your previous main residence.

## **EMPLOYERS**

### ***Same rules for all***

The same rules now apply to tax expenses and benefits regardless of how much the employee earns and whether he or she is a director. The old £8,500 threshold was abolished from 6 April 2016. Since that date, employees who were previously P9D employees are taxed on any benefits in kind that they receive in the same way as for P11D employees. This means that benefits such as company cars and private medical insurance are now taxable if the employee earns less than £8,500.

### ***No more P9Ds***

As a result of the changes, 2015/16 is the last tax year for which P9Ds are required. From 2016/17, where an employee has received a taxable benefit in kind, you will need to use form P11D to tell HMRC about that benefit, unless you have opted to tax it through the payroll.

### ***Payrolling for 2017/18***

Although it is now too late now to start payrolling for 2016/17, looking ahead to next year, if you want to deal with some or all of the taxable benefits that you provide through the payroll instead of reporting them to HMRC on form P11D after the end of the tax year, you need to register to do so by 5 April 2017. Speak to your adviser about what benefits can be payrolled and whether payrolling is for you.

### ***New exemption for deductible expenses***

A new exemption replaced the dispensation regime from 6 April 2016. It is available for expenses which would be fully deductible if the employee met the expense from his or her own pocket. Items such as business travel qualify. The exemption, which applies to qualifying paid and reimbursed expenses, is given automatically. Unlike the old dispensations, you no longer need to apply.

### ***Trivial benefits***

The long-awaited exemption for trivial benefits came into effect from 6 April 2016. Broadly, a benefit is trivial if the cost of providing it is £50 or less. Benefits that count as 'trivial' can be ignored and do not need to be reported to HMRC. Items such as a bunch of flowers sent to an employee on her birthday or a bottle of wine given to employees at Christmas may pass the 'trivial' test. However, for directors and employees of close companies, the trivial benefits exemption is capped at £300 per individual per year.

Speak to your adviser to discuss how you can make best use of these new exemptions.

## **GET YOUR AFFAIRS IN ORDER**

### ***HMRC campaigns***

HMRC are currently running a number of campaigns to encourage taxpayers who have undeclared income to come forward and bring their tax affairs up to date in return for lower penalties. In particular, campaigns are available in respect of let property, second incomes and credit card sales. If you have income from any of these sources which you need to tell HMRC about, please talk to your adviser as to how you can get the best possible deal under the available campaigns.

### ***Other undeclared income***

If you have undeclared income and gains from a source not currently covered by an HMRC campaign, speak to your adviser about making a disclosure. HMRC deal more favourably with people who come to them than with those who wait to be found out.

*This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases, so please contact us for personal advice on your own affairs.*

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