GOLDWINS
CHARTERED ACCOUNTANTS

Telephone: 020 7372 6494 Email: info@goldwins.co.uk

75 Maygrove Road, West Hampstead, London NW6 2EG www.goldwins.co.uk

TAX MATTERS

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Changes to company car tax

The rules governing company car tax have seen some significant changes in recent times, and with further measures in the pipeline, we consider the latest situation.

The current rules

Employees and directors pay tax on the provision of a company car, as well as on the provision of fuel for private mileage. Employers pay Class 1A national insurance contributions (NICs) at 13.8% on the same amount.

Company cars are taxed as a benefit-in-kind (BiK) by multiplying the list price of the car, including most accessories, by the 'appropriate percentage'. This percentage is set by reference to the car's fuel type and level of carbon dioxide (CO_2) emissions.

The taxable car fuel benefit is calculated by applying the appropriate percentage to the car fuel benefit charge multiplier, which is £22,600 for 2017/18. Reductions may apply where the employee makes a contribution towards the cost of the car, and where an employee reimburses the employer for all private fuel.

Rising rates

As the table below shows, a reduced rate of 9% currently applies for vehicles emitting no more than 50 g/km of CO_2, although from April 2018 the BiK rates will begin to increase significantly.

CO_2 (g/km)	Appropriate percentage* %		
	2017	2018	2019
0-50	9	13	16
51-75	13	16	19
76-94	17	19	22
95**	18	20	23
For every additional 5g thereafter add 1% until the maximum percentage of 37% is reached.			

*An additional supplement of 3% of the list price applies to diesel cars, up to the maximum cap of 37%.
**Emissions are rounded down to nearest 5 g/km for values above 95 g/km.

Further changes from April 2020

For 2020/21 further changes are set to come into effect, with the introduction of a new range of BiK bands with appropriate percentages ranging from 2%-19% for ultra-low emission vehicles (ULEVs) emitting less than 75 g/km of CO_2.

Cars with emissions over this amount would see the appropriate percentage set at the lesser of:

- 20%, plus 1% for each 5 g/km by which emissions exceed 75 g/km, and
- 37%.

Those looking to purchase a new vehicle should take these changes into account.

Re-evaluating the company car

The company car continues to be a worthwhile benefit for many, despite the rising tax obligations. When considering your company car options, there are a number of factors to take into account, including the new Optional Remuneration Arrangements (the replacement for salary sacrifice schemes), your average business mileage, and the forthcoming increases in BiK rates. It may even be worth considering a company van or ULEV.

We can advise on your business motoring needs. Please contact us for further assistance.

Landlords: get your tax affairs in order

HMRC recently revealed some of the most common tax errors that residential property landlords make, however unintentional they may be. The Let Property Campaign provides these landlords with the opportunity to get their tax affairs up-to-date and minimise any penalties.

What is the Let Property Campaign?

HMRC's Let Property Campaign provides a facility for landlords to report previously undisclosed rental income. Those who make a voluntary disclosure under the scheme will then be offered 'the best possible terms' for getting their tax affairs in order. There is no 'window' or end date by which individuals must make the disclosure, but those who delay risk higher penalties if HMRC ends up approaching them first.

The campaign is open to all individuals who let out residential property in the UK or abroad. This includes those who are:

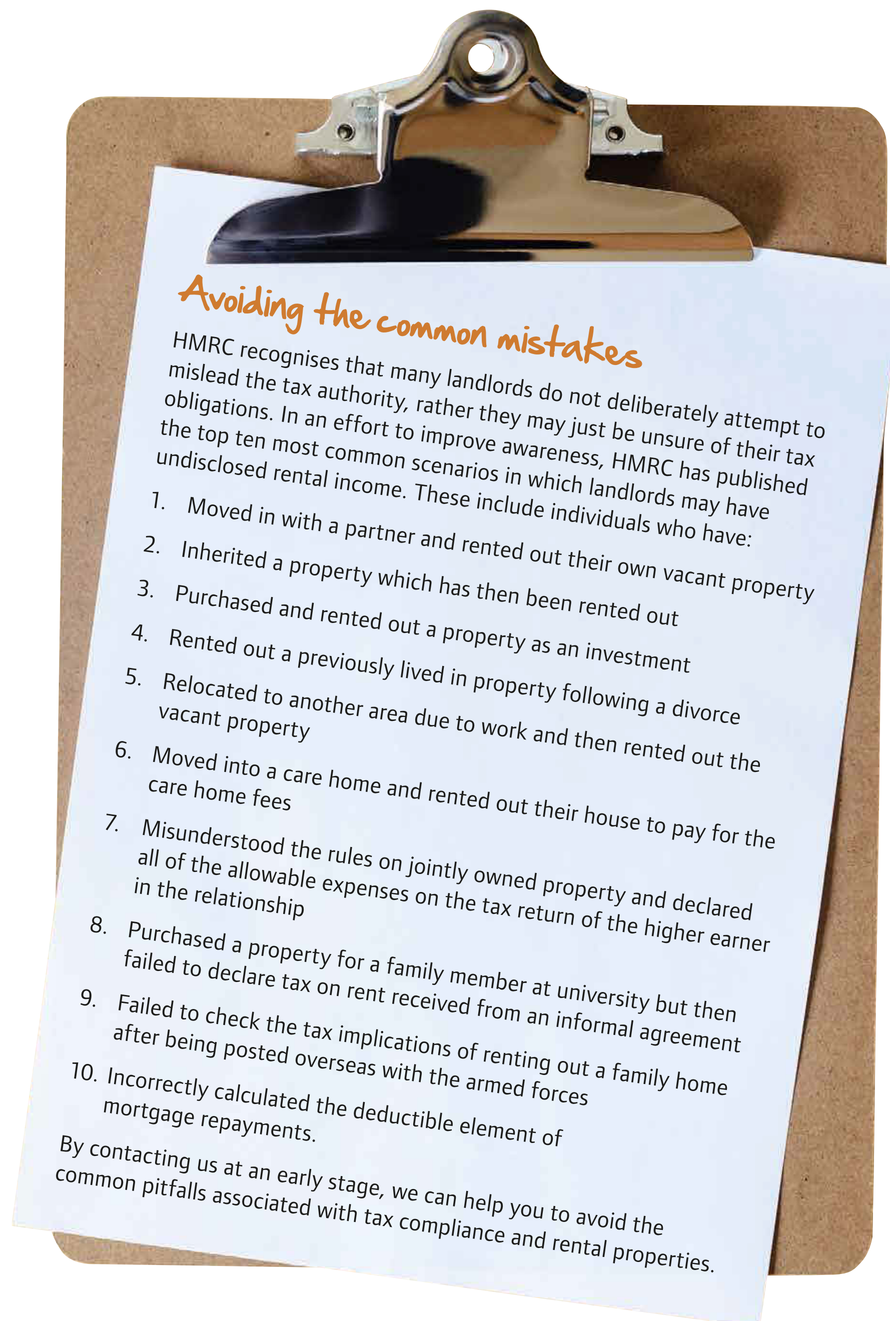
- renting out a single property
- renting out multiple properties
- specialist landlords (such as student or workforce rentals)
- renting out a room in their own home and exceeding the Rent a Room threshold (£7,500 per year in 2017/18)
- living abroad and renting out a property in the UK
- living in the UK and renting out a property abroad
- renting out a holiday home, even if it is used by the individual.

Please note that the scheme is not open to companies or trusts renting out residential property, or to those who are renting out non-residential property such as a garage or a workshop.

Making a disclosure

To take part in the Let Property Campaign the individual or their adviser will need to notify HMRC of their intention to make a disclosure. They will then have 90 days in which to inform HMRC about all previously undeclared income, gains, tax and duties. Full payment is required at the same time as the disclosure, although in some circumstances a staggered payment plan will be agreed.

When calculating the penalty, HMRC will consider the level of co-operation, the time taken to correct the non-compliance and the accuracy of the information provided. Simple mistakes lead to lower (or no) penalties than cases with deliberate withholding of information. However, the tax arrears will still need to be paid.



Avoiding the common mistakes

HMRC recognises that many landlords do not deliberately attempt to mislead the tax authority, rather they may just be unsure of their tax obligations. In an effort to improve awareness, HMRC has published the top ten most common scenarios in which landlords may have undisclosed rental income. These include individuals who have:

1. Moved in with a partner and rented out their own vacant property
2. Inherited a property which has then been rented out
3. Purchased and rented out a property as an investment
4. Rented out a previously lived in property following a divorce
5. Relocated to another area due to work and then rented out the vacant property
6. Moved into a care home and rented out their house to pay for the care home fees
7. Misunderstood the rules on jointly owned property and declared all of the allowable expenses on the tax return of the higher earner in the relationship
8. Purchased a property for a family member at university but then failed to declare tax on rent received from an informal agreement
9. Failed to check the tax implications of renting out a family home after being posted overseas with the armed forces
10. Incorrectly calculated the deductible element of mortgage repayments.

By contacting us at an early stage, we can help you to avoid the common pitfalls associated with tax compliance and rental properties.

If you believe that you have undeclared income, it is always better to notify HMRC voluntarily rather than waiting for it to contact you. We can make a disclosure on your behalf and calculate any tax owed – please contact us for details.

Are you caught in the '60% tax trap'?

The top rate of income tax is 45% – on paper at least! However, a quirk in the tax system means some high earners could be paying tax at an effective rate of 60%. The good news is that with careful planning, it may be possible to minimise your exposure to the 'hidden' top rate.

The tax system explained

Income tax is payable on earnings in excess of the personal allowance (PA), which is £11,500 for 2017/18. Earnings between £11,501 and £45,000 (£43,000 for Scottish taxpayers) are then taxed at the basic rate of 20%, while earnings between £45,001 (£43,001 in Scotland) and £150,000 are subject to higher rate tax of 40%. Earnings in excess of £150,000 are taxed at the additional rate of 45%. (There are some variations from the above rates for savings income which are not considered here.)

However, for some higher earners, the situation is not as straightforward as it might first appear. This is because the PA is scaled back for individuals with adjusted net income over £100,000. Adjusted net income is broadly taxable income less pension contributions and gift aid donations, grossed up to include any tax relief due.

The PA is reduced by £1 for every £2 of income in excess of this limit, meaning that someone with adjusted income of £123,000 or more in 2017/18 will not be entitled to any PA. For every additional £2 of income there will be a tax charge at 40%, plus a further £1 of income will become taxable at 40%. This has the effect of adding an extra 20% of tax on income between £100,000 and £123,000, giving an effective tax rate on this slice of income of 60%!

Although the government does not officially recognise the 60% marginal rate, the Institute for Fiscal Studies predicts that it will apply to at least 800,000 people this year, rising to one million by the end of 2018/19.

Minimising your liability

Wherever possible, individuals should consider what steps they can legitimately take to mitigate the impact of the 'hidden' top rate. This might involve strategies to reduce taxable income to below the level at which the 60% rate bites, but please do seek our advice before taking action.

Increase pension contributions

Increasing contributions to a registered pension scheme can help to reduce adjusted net income to £100,000, thereby preserving an individual's entitlement to the PA. Even if the PA is not fully preserved, any personal contributions to a pension normally qualify for tax relief at the individual's marginal rate of tax, which in this case is 60%!

The rules on pension contributions are complex and various restrictions apply.

Make Gift Aid donations

Making donations to a qualifying charity through Gift Aid can also reduce taxable income in the same way as making pension contributions.

Consider a salary sacrifice arrangement

Salary sacrifice allows employees to exchange a portion of their cash pay in return for non-cash benefits-in-kind. For those with income over £100,000, giving up a portion of their salary may help to lower their taxable income if the benefit received is non-taxable or valued at less than the salary foregone for tax purposes. This in turn will lessen the impact of the 60% tax rate.

Although the tax advantages of some types of salary sacrifice schemes were removed in April 2017, certain benefits have escaped the changes. These include childcare vouchers, Cycle-to-Work schemes and ultra-low emission cars with CO_2 emissions of up to 75 g/km. (Note that individuals wanting to apply for childcare vouchers will need to do so before April 2018, when the scheme closes to new entrants.)

For further advice on minimising the impact of the 60% tax rate, please get in touch.

The new Trusts Registration Service

HMRC has launched its new Trusts Registration Service, replacing the paper form 41G(Trust).

The new system

In response to the Fourth Money Laundering Directive, the new Trusts Register will provide a single online point of access for trustees, personal representatives and their agents to comply with their registration obligations and provide additional information regarding the beneficial owners of the trust.

All trusts with a UK tax consequence (including income tax, capital gains tax, inheritance tax and Stamp Duty Land Tax/Land and Buildings Transaction Tax) must be registered with the Trusts Registration Service (TRS), including new trusts and any which have already been included on Form 41G. The information provided must be accurate and kept up-to-date.

A Self Assessment Trust and Estate Tax Return (SA900) must still be submitted after the end of each tax year, reporting any income and gains.

Registering a trust

The self assessment registration deadline for new trusts is normally 5 October of the tax year after the trust is set up, or when it starts to make income or chargeable gains, if this is later. However, this has been temporarily extended for the first year to 5 December 2017. All other trusts with a relevant 2016/17 tax consequence will have until 31 January to provide beneficial ownership information, via the TRS.

On registering, trustees or agents will be required to provide additional details relating to the trust assets (including addresses and values), the identity of the trustees, settlor, protector, all other people with influence or involvement in the trust, and the beneficiaries or class of beneficiaries.

The required information will include names, dates of birth, national insurance (NI) numbers for UK resident adults, and an address and passport or ID number for non-UK residents, if there is no NI number.

Complex estates

The new Trusts Register also provides a single point of access for personal representatives and their agents to register complex estates and update their records online.

This applies to estates where the value exceeds £2.5m, the tax due for the administration period exceeds £10,000, or the value of assets sold in any tax year exceeds £250,000 for date of deaths up to April 2016 (or £500,000 for date of deaths after April 2016).

Please contact us for more information.

Tax Round-up

The self assessment deadline is approaching – don't be late!

The deadline to complete your 2017 self assessment tax return online is midnight on **31 January 2018**. You may receive a penalty of £100 if you miss this deadline, and further penalties will be issued for continued payment failures.

We can assist you in this process by preparing and filing your tax return on your behalf – we will also advise you on any payments due. Please contact us for more information.

Tax benefits for amateur sports clubs

Amateur sports clubs are being encouraged to make use of the tax exemptions that are available to them. In particular, recent guidance from the Association of Taxation Technicians (ATT) has highlighted that registering as a Community Amateur Sports Club (CASC) could bring the club similar tax benefits to an organisation with charitable status.

Such benefits include an exemption from tax on capital gains, bank interest, trading profits (as long as the club's trading turnover does not exceed £50,000 per annum) and up to £30,000 of rental income.

Sports clubs seeking to sell their premises or ground stand to benefit significantly from the tax exemption on capital gains.

If a CASC receives donations it might be able to top these up with 'Gift Aid' repayments from HMRC, again in a similar manner to a charity.

A CASC may also be eligible for charitable rate relief of up to 80%, or discretionary relief (100%) on business rates.

For more information on the tax rules governing CASCs, please get in touch.

New penalties for failure to correct offshore tax matters

Accountancy industry experts are warning taxpayers to carefully consider the government's proposed new penalties for failing to correct previously undeclared UK tax liabilities in respect of offshore interests.

Under proposals which are due to become law by the end of the year, the government's 'Requirement to Correct' regime obliges taxpayers with such undeclared past UK tax liabilities to correct their UK tax affairs by 30 September 2018, or face tough new penalties.

The new rules mean that taxpayers could face stringent penalties based on the value of the assets, as well as the tax due.

This builds on a new criminal offence for tax evasion introduced in 2016 for those who fail to declare offshore income or gains.

HMRC now has access to financial information regarding taxpayers from more than 100 overseas jurisdictions, including information relating to overseas interests.

For more information on the taxation of offshore assets and the requirement to correct, please contact us.

Tax Tip

Rewarding your employees

As the festive season approaches, did you know that an annual staff party could qualify as a tax-free benefit for your employees? Certain conditions need to be met, including:

- The total cost per head does not exceed £150 (including VAT, transport and accommodation)
- The combined cost of multiple events does not exceed £150 per head, per year
- The event is held primarily for the purpose of entertaining staff
- The event is generally open to all employees in that location.

For more information on tax-free benefits, please contact us.

Reminders for your Winter diary

December 2017

- 1 — New Advisory Fuel Rates (AFR) for company car users apply from today.
- 19 — PAYE, Student loan and CIS deductions are due for the month to 5 December 2017.
- 30 — Online filing deadline for submitting 2016/17 self assessment return if you require HMRC to collect any underpaid tax by making an adjustment to your 2018/19 tax code.
- 31 — End of CT61 quarterly period.
  Filing date for Company Tax Return Form CT600 for period ended 31 December 2016.

January 2018

- 1 — Due date for payment of corporation tax for period ended 31 March 2017.
- 14 — Due date for income tax for the CT61 quarter to 31 December 2017.
- 19 — PAYE, Student loan and CIS deductions are due for the month to 5 January 2018.
  PAYE quarterly payments are due for small employers for the pay periods 6 October 2017 to 5 January 2018.
- 31 — Deadline for submitting your 2016/17 self assessment return (£100 automatic penalty if your return is late) and the balance of your 2016/17 liability, together with the first payment on account for 2017/18 are also due.
  Capital gains tax payment for 2016/17.
  Balancing payment – 2016/17 income tax and Class 4 NICs. Outstanding Class 2 NICs also due.

February 2018

- 2 — Deadline for submitting P46(car) for employees whose car/fuel benefits changed during the quarter to 5 January 2018.
- 19 — PAYE, Student loan and CIS deductions are due for the month to 5 February 2018.

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