NEWSLETTER NOVEMBER 2016

AUTUMN STATEMENT PLANS

The Chancellor of the Exchequer, Philip Hammond, will present his first Autumn Statement to Parliament on Wednesday 23 November 2016.

The Chancellor recently met with representatives from British business and business groups to listen to their views ahead of the Autumn Statement. The events, which took place at the Treasury and Downing Street, also provided the opportunity for discussions regarding leaving the EU.

The Chancellor said:

'My message to businesses is clear: in our negotiations to leave the EU, we will work hard to get the best deal for Britain and that includes ensuring that British companies can continue to trade with the single market in goods and services.'

Carolyn Fairbairn, Director General of the CBI, commented:

'Business wants the openness of the UK's economy to be preserved – specifically access to markets, skills and trade – and to see an ambitious Autumn Statement that drives investment and growth, and delivers jobs and prosperity for all of the UK's regions.'

We will keep you up to date with pertinent announcements from the Autumn Statement.

TAX FREE CHILDCARE

HMRC have announced further details of the new Tax Free childcare scheme which is to be introduced in 2017.

To be eligible, families will have to have all parents in work and each expecting to earn at least £115 per week and less than £100,000 a year and not be already receiving support through Tax Credits or Universal Credit.

The government will top up the account with 20% of childcare costs up to a total of £10,000 - the equivalent of up to £2,000 support per child per year (or £4,000 for disabled children).

HMRC are asking childcare providers to register for the scheme as soon as possible.

Tax-Free Childcare will be launched from early 2017. The scheme will be rolled out gradually to families, with parents of the youngest children able to apply first. Parents will be able to apply for all their children at the same time, when their youngest child becomes eligible. All eligible parents will be able to join the scheme by the end of 2017.

The current system of employer supported childcare will continue to be available for current members if they wish to remain in it or they can switch to the new scheme. Employer supported childcare will continue to be open to new joiners until April 2018.

The existing system of employer supported childcare provides an income tax and national insurance contributions (NIC) relief. The maximum relief is an exemption from income tax and NIC on £55 a week. This relief is per employee so if both parents are in employment the maximum exemption is £110 per week. In the new scheme the limit is per child.

Throughout September and October 2016, letters are being sent to regulated and approved childcare providers asking them to sign up online for Tax-Free Childcare. Only childcare providers registered with a regulator (such as Ofsted) can receive Tax-Free Childcare payments.

The government will make more information available, including details of how parents can sign up, later this year.

INCREASE IN NMW RATES

The National Minimum Wage (NMW) is a minimum amount per hour that most workers in the UK are entitled to be paid. NMW rates increases come into effect on 1 October 2016.

- the rate for 21 to 24 year olds will increase by 25 pence to £6.95 per hour
- the rate for 18 to 20 year olds will increase by 25 pence to £5.55 per hour
- the rate for 16 to 17 year olds will increase by 13 pence to £4.00 per hour
- the apprentice rate will increase by 10 pence to £3.40 per hour.

The mandatory National Living Wage (NLW) applies for workers aged 25 and above. This is £7.20 an hour.

NLW and NMW rates will in the future be uprated every April starting in April 2017.

Penalties

Penalties may be levied on employers where HMRC believe underpayments have occurred and HMRC may 'name and shame' non-compliant employers.

National Living Wage hits small business costs

According to research, 47% of small business owners blame increased wages following the introduction of the NLW as the main contributor to rising costs.

The research, carried out by the Federation of Small Businesses (FSB), revealed that a third of FSB members claim that the NLW has led to a small increase in their wage costs while one in five have said that their staff costs have increased significantly. Although 59% of FSB members absorbed the increased costs through reduced profitability, 35% have increased prices, 24% reduced staff hours and 23% cut investment.

Updated guidance

HMRC have updated their guidance on payroll reporting including what employers should include on the Full Payment Submission (FPS) and Employer Payment Summary (EPS) returns.
Please contact us if you would like help with your payroll.

VAT CLAIM ON COMPANY CARS ALLOWED

HMRC recently lost a first tier tribunal case on the recovery of VAT on the purchase of six cars.

Although most VAT registered businesses are able to recover the VAT on the purchase of commercial vehicles the rules for the recovery on a car state two conditions must be met:

- the vehicle must be used exclusively for business purposes and
- it is not made available for private use.

In the case of Zone Contractors Ltd the court accepted that six cars were not available for private use which allowed the business to successfully recover the VAT on the six cars.

The business had a strongly worded contract of employment that prevented employees from using company cars for private travel. This was the crucial factor in this case and allowed the business to recover over £27,000 in input VAT on the purchase of six new cars.

The tribunal was satisfied that the cars were wholly used for business purposes and were not available for private use. The tribunal also rejected HMRC's argument that the company had failed to demonstrate that the cars were not available for private use.

Other factors which were relevant:

- The Tribunal was satisfied that all employees signed a contract when they first joined the company, which included the following '*It is hereby strictly forbidden for the Employee to use the Company vehicle for any personal use inside/outside their employment hours'*.
- The six cars were always kept overnight at the company's offices or were left on site.
- Zone Contractors carry out groundwork projects and the vehicles were appropriate for for site based work.
- The taxpayer also successfully counteracted HMRC's argument that the insurance cover of the vehicles included use for 'social, domestic and pleasure' (SDP), and was not just restricted to business use. But the tribunal accepted it was impossible to have a business only policy without the SDP clause.
- HMRC also put forward an argument that private use of a car would include detours to buy '*cigarettes or lunch while out on a business journey or even going off site to collect lunch'*. The tribunal concluded that such use could be ignored as de minimis.
- The intended use of the car at the time it is purchased is crucial. The private use issue means that either a legal restriction to prevent such use or a physical restriction must be in place.

HMRC may appeal against the decision.

LIFETIME ISA

Following consultation the government has issued further details of the new Lifetime ISA account which is expected to be available from April 2017.

In summary the account will be available to adults under the age of 40 and individuals will be able to contribute up to £4,000 per year and receive a 25% bonus from the government. Funds, including the government bonus, can be used to buy a first home at any time from 12 months after opening the account and can be withdrawn from age 60 completely tax free.

The new Lifetime ISA is designed to allow flexible saving for first time buyers and those wishing to save for their retirement.

Further details of the new Lifetime ISA are as follows:

- Any savings an individual puts into the account before their 50th birthday will receive an added 25% bonus from the government.
- There is no maximum monthly contribution and up to £4,000 a year can be saved into a Lifetime ISA.
- The savings and bonus can be used towards a deposit on a first home worth up to £450,000 across the country.
- Accounts are limited to one per person rather than one per home, so two first time buyers can both receive a bonus when buying together.
- Where an individual already has a Help to Buy ISA they will be able to transfer those savings into the Lifetime ISA in 2017/18, or continue saving into both. However only the bonus from one account can be used to buy a house.
- Where funds are withdrawn at any time before the account holder is aged 60 they will incur a 25% government charge applied to the amount of the withdrawal. This returns the government bonus element of the fund (including any interest or growth on that bonus) to the government with a small additional charge applied.
- After the account holder's 60th birthday they will be able to take all the savings tax free.

PAYE LATE FILING PENALTIES

HMRC have published the latest issue of the Employer Bulletin with articles on a variety of topics relevant to employers.
One article advises that HMRC have issued the Quarter 1 late filing penalty notices, which cover the period 6 April to 5 July 2016 and have confirmed that these penalties will continue to be issued on a risk assessed basis.

HMRC have confirmed that a late filing penalty will generally not be charged for delays of up to three days after the statutory filing date, but that they may contact employers who persistently file after the statutory filing date but within three days, and they risk being considered for a penalty.

LATEST GUIDANCE FOR EMPLOYERS

Statutory Maternity Leave and Childcare Vouchers

Following the decision of an Employment Appeal Tribunal (Peninsula Business services v Donaldson) regarding Childcare Vouchers (CCVs), salary sacrifice and maternity leave, HMRC are considering what guidance is needed. In the interim they have confirmed:

If CCVs are provided under an employment contract, outside the scope of a salary sacrifice scheme, then the vouchers must continue to be provided during maternity leave and other periods of family leave (other than unpaid parental leave). There is legal authority that whether an employer must provide CCVs to a person participating in a salary sacrifice scheme in respect of a period when they are on family leave, depends on the terms of the contract of employment. In the Peninsula case, the contract said that an employee on maternity leave would not continue to receive CCVs. The judgment is only of direct relevance in dealing with similar contractual exclusions. Employers are free to continue making payments into a salary sacrifice scheme to buy CCVs on behalf of an employee on family leave if they wish. Use of CCVs that employees already have is not affected by the judgment.

Please contact us if you would like help with payroll matters.

TAX GAP FALLS TO 6.5%

The Office for National Statistics has announced that the UK tax gap fell in 2014/15 to its lowest ever level of 6.5%.

The press release confirms that the UK tax gap, the difference between the amount of tax due and the amount collected, is one of the lowest in the world.

HMRC have reduced the tax gap from 8.3% in 2005/06. If the tax gap had remained at the 2005 to 2006 level of 8.3%, it would have grown to £47 billion and the country would have been £11 billion a year poorer.

HMRC believe that the tax gap has fallen, in part, due to digital reporting. In particular Real Time Information reporting for the PAYE system has led to more accurate recording of information on payroll taxes, and the shift to VAT online has helped bring the VAT gap in 2014/15 to its lowest level of 10.3% (£12.7 billion).

The Financial Secretary to the Treasury, Jane Ellison said:

This government is committed to tackling tax evasion and avoidance wherever it occurs.

The UK has one of the lowest tax gaps in the world. By investing £1.8 billion since 2010 in boosting HMRC compliance capabilities, we've brought our tax gap down to its lowest ever level. And to make it even easier for people to pay the right tax in the future, we've invested £1.3 billion in new digital tools.

HMRC UPDATE PHISHING GUIDANCE

HMRC have updated their guidance to taxpayers on how to spot phishing scam emails.

Phishing is the fraudulent act of emailing a person in order to obtain their personal/financial information such as passwords and credit card or bank account details. These emails often include a link to a bogus website designed to encourage the unwary to enter their personal details.

The HMRC guidance is designed to help taxpayers to recognise genuine contact from HMRC, and how to tell when an email/text message is phishing/bogus.

NEW WEBSITE TO HELP CHARITIES TACKLE FRAUD

The Charity Commission for England and Wales, together with members of the Charity Sector Counter Fraud Group, have launched a new website to help charities tackle fraud. The website is designed to provide guidance for trustees, staff and volunteers who want more information on tackling fraud in their charity, and includes guidance, tips and case studies, together with links to other organisations tackling charity fraud.

The new website has been launched to mark the start of Charity Fraud Awareness Week (24-28 October). The campaign reminds charities how to limit their fraud risk and aims to ensure that trustees and charity staff can recognise the warning signs of fraud and offers advice on an effective and proportionate response.

David Kirk, Chairman of the Fraud Advisory Panel, commented:

'Fraud presents a serious threat to every organisation but unfortunately charities can be particularly vulnerable due to the high number of financial transactions they undertake. Fraud can manifest itself in many different forms and is constantly evolving - which is why we are urging everyone working with charities and not-for-profit organisations to join together and stop fraud against charities. Charity staff and trustees must stay alert to the risks and understand how to manage them.'

PLANS TO ALLOW PENSIONERS TO SELL ANNUITIES ABANDONED

The government has announced that it is shelving plans to allow pensioners to sell their annuities for a lump sum.

Many experts had predicted that those who sold their annuities would be likely to get a poor deal and the government has decided not to take forward the plans to introduce a secondary annuities market because the consumer protections required could undermine the market's development.

It has become clear that creating the conditions to allow a competitive market to emerge could not be balanced with sufficient consumer protections.

The Economic Secretary to the Treasury, Simon Kirby, said:

'Allowing consumers to sell on their annuity income was always dependent on balancing the creation of an effective market with making sure consumers are properly protected.
It has become clear that we cannot guarantee consumers will get good value for money in a market that is likely to be small and limited.

Pursuing this policy in these circumstances would put consumers at risk – this is something that I am not prepared to do.

The government has always been clear that for the majority of people keeping their annuity incomes will be their best option, estimating that only 5% of people who currently hold an annuity would take advantage of this reform.'

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