NEWSLETTER FEBRUARY 2019

This newsletter covers the period from 1 November 2019 to 28 February 2019.

CAPITAL ALLOWANCES CHANGES

A number of changes to capital allowances were announced at the Budget, including an increase in the Annual Investment Allowance (AIA), for two years to £1 million, in relation to qualifying expenditure incurred from 1 January 2019. The AIA is currently £200,000 per annum. Complex calculations may apply to accounting periods which straddle 1 January 2019.

Other changes to the rules include:

- a reduction in the rate of writing down allowance on the special rate pool of plant and machinery, including long-life assets, thermal insulation, integral features and expenditure on cars with CO_2 emissions of more than 110g/km, from 8% to 6% from April 2019. Complex calculations may apply to accounting periods which straddle this date
- clarification as to precisely which costs of altering land for the purposes of installing qualifying plant or machinery qualify for capital allowances, for claims on or after 29 October 2018
- the end of the 100% first year allowance and first year tax credits for products on the Energy Technology List and Water Technology List from April 2020
- an extension of the current 100% first year allowance for expenditure incurred on electric charge-point equipment until 2023.

In addition, a new capital allowances regime will be introduced for structures and buildings. It will be known as the Structures and Buildings Allowance and will apply to new non-residential structures and buildings. Relief will be provided on eligible construction costs incurred on or after 29 October 2018, at an annual rate of 2% on a straight-line basis.

ENTREPRENEURS' RELIEF CHANGES

The government announced, as part of the Budget, that some changes are being made to the rules for Entrepreneurs' Relief (ER) with immediate effect for disposals on or after 29 October 2018. Two new tests are to be added to the definition of a 'personal company', requiring the claimant to have a 5% interest in both the distributable profits and the net assets of the company. The new tests must be met, in addition to the existing tests, throughout the specified period in order for relief to be due. The existing tests already require a 5% interest in the ordinary share capital and 5% of voting rights.

Minimum qualifying period

The government will legislate in Finance Bill 2018-19 to increase the minimum period throughout which certain conditions must be met to qualify for ER, from one year to two years. The measure will have effect for disposals on or after 6 April 2019 except where a business ceased before 29 October 2018.

Where the claimant's business ceased, or their personal company ceased to be a trading company (or the holding company of a trading group) before 29 October 2018, the existing one year qualifying period will continue to apply.

Dilution of holdings below 5%

Draft legislation has already been issued to provide a potential entitlement to ER where an individual's holding in a company is reduced below the normal 5% qualifying level (meaning 5% of both ordinary share capital and voting power). The relief will only apply where the reduction below 5% occurs as a result of the company raising funds for commercial purposes by means of an issue of new shares, wholly for cash consideration.

Where a disposal of the shareholding prior to the issue would have resulted in a gain which would have qualified for ER, shareholders will be able to make an election treating them as if they had disposed of their shares and immediately reacquired them at market value just before dilution. To avoid an immediate CGT bill on this deemed disposal, a further election can be made to defer the gain until the shares are sold. ER can then be claimed on the deferred gain in the year the shares are sold under the rules in force at that time.

The new rules will apply for share issues which occur on or after 6 April 2019.

Please contact us if you would like further information on how this may affect you.

NEW GUIDANCE FOR EMPLOYERS

HMRC has issued the October 2018 Employer Bulletin which contains a number of articles relevant to employers on payroll related issues.

The articles cover a number of areas including:

- clarification of the rules regarding paying employees when the regular payday is a non-banking day
- dealing with PAYE Settlement Agreements and new procedures to accommodate Scottish income tax rates
- Construction Industry Scheme reminders for contractors
- an update on the Welsh rates of income tax (WRIT) and new tax codes for Welsh taxpayers
- guidance on the correct pay rates for apprentices
- how to apply for advance statutory payment of Maternity, Parental, Paternal or Adoption Pay
- spotlight on umbrella companies
- Real Time adjustments to tax codes and their timing
- closure of childcare vouchers and directly contracted childcare to new entrants from 4 October 2018
- Disguised Remuneration Loan Charge – reporting requirements and
- improving the wellbeing of your employees

For help with payroll matters please contact us.

LEAVING THE EU WITH NO DEAL

The government has published a collection of documents in preparation for the scenario of the UK leaving the EU without a Withdrawal Agreement a so called 'no deal' Brexit.

The guidance states:

'The government does not want or expect a no deal scenario. However, it is the duty of a responsible government to prepare for a range of potential outcomes, including the unlikely event of no deal. In the event of leaving the EU without a deal, legislation will be necessary to ensure the UK's Customs, VAT and Excise regimes function as intended after the UK leaves the EU and so, on a contingency basis, HM Treasury and HM Revenue and Customs will lay a number of Statutory Instruments (SIs) under the Taxation (Cross-border Trade) Act 2018 (TCTA) and the EU Withdrawal Act 2018 (EUWA).'

We will keep you informed of developments.

180,500 NEW HOMEOWNERS BENEFIT FROM STAMP DUTY RELIEF

According to statistics published by HMRC more than 180,500 first-time buyers have benefitted from First Time Buyers Relief (FTBR). The relief introduced in November 2017 has saved eligible first-time buyers an estimated total amount of more than £426 million.

Mel Stride MP, Financial Secretary to the Treasury, said:

'These statistics show that the government was right to offer a helping hand to first time buyers. Without this investment more than 180,500 new homeowners may have struggled in getting onto the property ladder. Maintaining the status quo was not an option.'

FTBR is a Stamp Duty Land Tax relief for eligible first-time buyers. The tax relief can be used when buying a residential property where the purchase price is no more than £500,000 in England and Northern Ireland. Land and Buildings Transaction Tax and Land Transaction Tax apply to property in Scotland and Wales.

The press release goes on to state:

'The amount of relief reported should not be used to infer average house prices for first time buyers; first-time buyer purchases below £125k and above £500k are not included in the statistics as they are below the lower SDLT threshold (£125k) or ineligible for the relief (above

£500k).For purchases up to £300,000 no SDLT is payable. Where the purchase price is between £300,000 and £500,000 SDLT at 5% is due on the amount above £300,000. For example, a property purchased for £450,000 would pay £7,500 SDLT (5% of £150,000). This gives a saving of up to £5,000 for each first-time buyer.'

Extension of FTBR

It was announced in the Autumn Budget 2018 that the relief for first-time buyers will be extended to purchasers of qualifying shared ownership properties who do not elect to pay SDLT on the market value of the whole property when they purchase their first share. Relief will be applied to the first share purchased, where the market value of the shared ownership property is £500,000 or less. This relief will apply retrospectively from 22 November 2017, meaning that a refund of tax will be payable for those who have paid SDLT after 22 November 2017 in circumstances which now qualify for FTBR.

TAX-FREE GIFTS TO EMPLOYEES

Some employers may wish to give a small gift to their employees. As long as the employer meets the relevant conditions, no tax charge will arise on the employee.

A tax exemption is available which should help employers ensure that the benefits provided are exempt and do not result in a reportable employee benefit in kind. In order for the benefit to be exempt it must satisfy the following conditions:

- the cost of providing the benefit does not exceed £50 per employee (or on average when gifts made to multiple employees)
- the benefit is not cash or a cash voucher
- the employee is not entitled to the benefit as part of a contractual arrangement (including salary sacrifice)
- the benefit is not provided in recognition of particular services performed by the employee as part of their employment duties
- where the employer is a 'close' company and the benefit is provided to an individual who is a director, an office holder or a member of their household or their family, then the exemption is capped at a total cost of £300 in a tax year.

If any of these conditions are not met then the benefit will be taxed in the normal way subject to any other exemptions or allowable deductions.

No more than £50

One of the main conditions is that the cost of the benefit does not exceed £50. If the cost is above £50 the full amount is taxable, not just the excess over £50.The cost of providing the benefit to each employee and not the overall cost to the employer determines whether the benefit can be treated as a trivial benefit. So, a benefit costing up to £50 per employee whether provided to one or more employees can be treated as trivial. Where the individual cost for each employee cannot be established, an average could be used. Some HMRC examples consider gifts of turkeys, a bottle of wine or alternatively a gift voucher.

Further details on how the exemption will work, including family member situations, are contained in the HMRC manual.

However if you are unsure please do get in touch before assuming the gift you are about to provide is covered by the exemption.

ADVISORY FUEL RATES FOR COMPANY CARS

New company car advisory fuel rates have been published which took effect from 1 December 2018. The guidance states: *'You can use the previous rates for up to one month from the date the new rates apply'*. The rates only apply to employees using a company car.

The advisory fuel rates for journeys undertaken on or after 1 December 2018 are:

Engine size	**Petrol**
1400cc or less	12p
1401cc - 2000cc	15p
Over 2000cc	22p
Engine size	**LPG**
1400cc or less	8p
1401cc - 2000cc	10p
Over 2000cc	15p
Engine size	**Diesel**
1600cc or less	10p
1601cc - 2000cc	12p
Over 2000cc	14p

HMRC guidance states that the rates only apply when you either:

- reimburse employees for business travel in their company cars
- require employees to repay the cost of fuel used for private travel

You must not use these rates in any other circumstances.

If you would like to discuss your car policy, please contact us.

SCOTTISH BUDGET 2018 INCOME TAX CHANGES

Finance Secretary Derek Mackay delivered the 2019/20 Scottish Draft Budget on Wednesday 12 December 2018 setting out the Scottish government's financial and tax plans. The announcement had been timed to take place after Chancellor of the Exchequer Philip Hammond delivered the UK Budget on 29 October 2018. The Finance Secretary announced changes to Scottish income tax. Contact us for advice on how the Scottish Budget impacts you.

Scottish Income tax

The government has devolved powers to set the rates and bands of income tax (other than those for savings and dividend income) which apply to Scottish resident taxpayers. The Scottish Budget announced the following income tax rates and bands for 2019/20. These will be considered by the Scottish Parliament, and an agreed Scottish Rate Resolution will set the final Scottish Income tax rates and bands for 2019/20.

The current rates and bands for 2018/19 and the proposed rates and bands for 2019/20 on non-savings and non-dividend income are as follows:

Scottish Bands 2018/19	Scottish Bands 2019/20	Band Name	Scottish Rates
Over £11,850* - £13,850	Over £12,500* - £14,549	Starter	19%
Over £13,850 - £24,000	Over £14,549 - £24,944	Scottish Basic	20%
Over £24,000 - £43,430	Over £24,944 - £43,430	Intermediate	21%
Over £43,430 - 150,000**	Over £43,430 - 150,000**	Higher	41%
Over £150,000**	Over £150,000**	Top	46%

* assuming the individual is entitled to a full UK personal allowance

** the personal allowance will be reduced if an individual's adjusted net income is above £100,000. The allowance is reduced by £1 for every £2 of income over £100,000.

The personal allowance is currently £11,850 for 2018/19. The personal allowance for 2019/20 will be £12,500.

The UK higher rate tax point for 2019/20 is set at £50,000 (for those entitled to the full UK personal allowance) and the tax rates for non-savings and non-dividend income have been maintained at 20%, 40% and 45% respectively. The additional rate of 45% is payable on income over £150,000.

For 2019/20 Scottish taxpayers with employment income of approximately £27,000 will pay the same amount of income tax as those with similar income in the rest of the UK. For higher earners, with pay of £150,000, a Scottish taxpayer will pay approximately an extra £2,670 of income tax than those on similar income in the rest of the UK.

SCOTTISH BUDGET 2018 PROPERTY TAX CHANGES

In the 2019/20 Scottish Draft Budget, Derek Mackay announced changes to Scottish Land and Buildings Transaction Tax (LBTT) which are considered below.

The government's stated policy priority for residential Land and Buildings Transaction Tax (LBTT) remains to help first-time buyers and to assist people as they progress through the property market. Since its introduction, this policy has ensured that over 80% of taxpayers benefit from LBTT by paying either no tax or less tax than in England.

The current rates and bands are as follows:

Residential property	**Rate**
0 - £145,000	0%
£145,001 - £250,000	2%
£250,001 - £325,000	5%
£325,001 - £750,000	10%
£750,001 and over	12%

The rates apply to the portion of the total value which falls within each band.

First-time buyer relief

A relief applies for first-time buyers of properties up to £175,000. The relief raises the zero tax threshold for first-time buyers from £145,000 to £175,000. First-time buyers purchasing a property above £175,000 also benefit from the relief on the portion of the price below the threshold.

Higher rates for additional residential properties

Higher rates of LBTT are charged on purchases of certain residential properties, such as buy to let properties and second homes. Although these are the main targets of the higher rates, some other purchasers may have to pay the higher rates.

The Additional Dwelling Supplement (ADS) potentially applies if, at the end of the day of the purchase transaction, the individual owns two or more residential properties and is not replacing their main residence. Care is needed if an individual already owns, or partly owns, a property and transacts to purchase another property without having disposed of the first property. An 18 month rule helps to remove some transactions from the additional rates (or allows a refund).

The Government announced an increase in the ADS from 3% to 4% from 25 January 2019, but this increase will not apply if the contract for a transaction was entered into prior to 12 December 2018. Existing arrangements allowing for the supplement to be reclaimed will continue.

Changes for non-residential rates and bands

The Government will reduce the lower rate of non-residential LBTT from 3% to 1%, increase the upper rate from 4.5% to 5% and reduce the starting threshold of the upper rate from £350,000 to £250,000. These changes come into force from 25 January 2019, but will not apply if the contract for a transaction was entered into prior to 12 December 2018.

The revised rates and band for non-residential LBTT transactions are as follows:

Non-residential transactions

Purchase price	Rate	Non-residential leases Net present value of rent payable	Rate
Up to £150,000	0%	Up to £150,000	0%
£150,001 to £250,000	1%	Over £150,000	1%
Over £250,000	5%		

PENSION CONTRIBUTION INCREASES AHEAD

The Pensions Regulator (TPR) is reminding employers that from 6 April 2019, the amount that will need to be paid into a workplace pension will increase to an overall minimum of 8%, with employers contributing at least 3% of this total amount.

TPR is now starting to write to all employers to remind them of their duties. TRP website provides further information on the increases and a link to a letter template advising employees of the increase.

TPR is advising employers that they should also check with their payroll software provider and pension provider to ensure plans are in place ahead of 6 April 2019.

Please contact us if you would like help with your payroll or pensions auto enrolment compliance.

BUSINESSES URGED TO PREPARE FOR POST-BREXIT CUSTOMS DECLARATIONS

HMRC is urging VAT-registered UK businesses which trade exclusively with the EU to be prepared for a no deal Brexit.

In a letter sent to 145,000 affected businesses, HMRC explains changes to Customs, Excise and VAT procedures in the 'unlikely event' that the UK leaves the EU without a Brexit deal.

HMRC's letter advises businesses to take three actions ahead of 'Brexit Day' on 29 March 2019:

- Register for a UK Economic Operator Registration and Identification (EORI) number.
- 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.
- Contact the organisation responsible for moving goods (for example, the haulage firm) in order to ascertain whether the business will need to supply additional information to complete safety and security declarations, or whether it will need to submit these declarations itself.

A report jointly published by HMRC and the National Audit Office (NAO) recently revealed that approximately 55 million customs declarations are currently made by British businesses every year. This figure may rise to 255 million when the UK leaves the EU.

HMRC intends to write to businesses in the future in order to instruct them on any additional actions they will need to take, and when. We will keep you informed of developments.

SPRING STATEMENT DATE ANNOUNCED

The Chancellor of the Exchequer, Philip Hammond, has announced that the government will respond to the forecast from the Office for Budget Responsibility (OBR) in the Spring Statement on Wednesday 13 March 2019.

The Chancellor may take the opportunity to announce tax changes and consultations.

We will update you on pertinent announcements.

PROTECT YOUR PENSION POTS

The Insolvency Service has urged individuals saving for retirement to protect their pension pots from criminals and 'negligent trustees'.

Research carried out by the Service found that criminals use a range of tactics to convince savers to part with their funds, including persuading individuals to access their pension and invest in unregulated schemes.

Pension scam victims lost an average of £91,000 to criminals in 2018, according to Financial Conduct Authority (FCA) research. Criminals often use cold-calls and offers of free pension reviews to convince their victims to comply.

The Insolvency Service has urged savers to be wary of calls that come out of the blue; seek financial advice before altering their pension arrangements or making investments; and not be pressured into making decisions about their pension.

Consumer Minister Kelly Tolhurst said:

'If you are approached to make an investment from your pension, always do your homework and seek independent advice, if necessary, to help you make an informed decision.

'The government continues to work closely with the Insolvency Service who are working to clamp down on rogue companies targeting vulnerable people.'

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