NEWSLETTER MARCH 2020

This newsletter covers the period from 1 March 2019 to 29 February 2020.

CHANGES TO PRINCIPAL PRIVATE RESIDENCE (PPR RELIEF)

Property owners disposing of a dwelling, which at some point of ownership was used as their only or main residence, are currently entitled to claim principal private residence relief (PPR) for the period of ownership as well as the final 18 months regardless of the use of the property. Several changes to PPR relief were announced at the 2018 Budget and will become effective from 6 April 2020, impacting the amount of relief available on disposals on or after this date.

Final period of ownership

One of the changes being implemented is a reduction of the final exemption period from 18 months to 9 months, except for property owners with a disability or a resident in care home, who will remain entitled to a final exemption period of 36 months.
The changes are most likely to impact those individuals who no longer live in the old main residence but are unable or are having difficulty selling the property within the shortened final period of nine months. Those individuals could have an unwelcome chargeable gain.

Letting exemption

Changes will also be made to the availability of letting relief.

Letting relief currently applies where an individual lets out their only or main residence as residential accommodation for part or all of their period of ownership. On disposal, the individual is entitled to relief at the lower of:

- the amount of PPR relief available
- the chargeable gain arising from the letting
- £40,000

As it currently stands, there is no requirement for the individual to occupy the dwelling whilst they let it out. However, for disposals on or after 6 April 2020, letting relief will only be available for the periods in which the individual has had shared occupancy with their tenants.

In reality, only a small fraction of those currently claiming lettings relief are living in the property during the period of letting, so following the changes from 6 April 2020 the majority of those currently qualifying will no longer be eligible for the relief. There is no apportionment for periods prior to 6 April 2020. Individuals could be losing out on as much as £40,000 of tax relief against property disposals.

In addition to the above changes, the definition of 'job related accommodation' will be amended to include those who are serving in the armed forces and, whilst not occupying their home, receive payments from the Ministry of Defence which they use to pay for accommodation.

DEADLINE TO PAY CGT ON RESIDENTIAL PROPERTY REDUCED TO 30 DAYS!

Under the current self-assessment system, reporting property disposals and paying any resulting capital gains tax (CGT) is not due until the deadline for submitting a self-assessment form. For UK-residents and some non-residents, this can be up to 22 months after the disposal took place, whereas for most non-residents reporting, and settling any CGT due on, UK residential property disposals, this date is 30 days from completion.

With effect from 6 April 2020, disposals of UK residential property on which CGT is due will have to be reported and the tax paid within 30 days of the disposal.

The 30-day period will start from the completion date and not date from the date contracts are exchanged. The vendor will be required to calculate the amount of tax payable on account, taking into consideration unused losses, the person's annual exempt amount and an appropriate rate of tax after estimating the person's taxable income for the year. Reconciliations of payments can be made at the end of the tax year.

Certain disposals by UK-residents, will not be subject to the 30-day reporting and payment deadline, including circumstances where a gain on the disposal is not chargeable to CGT, for example where the gains are covered by Principal Private Residence relief (PPR). (Please refer to our article on upcoming changes to PPR relief)

Non-resident companies are charged to corporation tax (CT) rather than CGT on disposals of UK residential property interests and so will not be subject to the 30-day period.

This change will mainly affect those UK residents selling a second home or rental property on which PPR is not available. From April 2020, individual's will need to make a payment within 30 days.

Please let us know in view of the short window in which to report and pay the tax on dispsoals as soon as a sale is agreed and we will determine the CT payable. This can no longer be left to the end of the tax year.

STRUCTURE AND BUILDINGS ALLOWANCE

Finance Act 2019 introduced a new Structural Buildings Allowance (SBA). Although this legislation has now been around for nearly 16 months (it was available from 29 October 2018), it remains an unfamiliar area.

The Capital Allowances Act 2001 did not give any provision for relief to be claimed on the vast majority of structures and buildings. The new scheme looks to provide for relief of construction costs of new qualifying buildings over their lifetime and thus address this gap in the existing system by offering greater scope for tax relief on construction costs. SBA has been introduced to relieve the costs of physically constructing the new buildings and structures, hopefully encouraging investment into the construction of new commercial structures and buildings, as well as the improvement of existing structures and buildings. SBA is available for non-residential structures and buildings; dwellings and land do not qualify for relief.

The allowance is a simple 2% deduction per annum on a straight-line basis over a 50-year period. Relief is available on eligible construction costs incurred on or after 29 October 2018. For a project to be eligible, the contracts for construction need to be have been entered into on or after this date. The relief is available to businesses paying either corporation tax or income tax. The relief rate is not linked to any subsequent increase in the value of the building becoming apparent in a sale or otherwise, and concerns only the original construction costs.

Qualifying Expenditure

The relief is limited to the costs of constructing the structure or building, including the costs of any demolition or land renovations required for the construction. Expenditure on land itself, including stamp duty, legal costs, or planning permission, does not qualify for the relief. If a building or structure is acquired from a developer, then an apportionment must be made to separate the cost of the building or structure from the cost of the land; the eligible costs will then be the overall acquisition price minus the cost of the land.

SBA is limited to the original costs of construction or renovation, and is relieved across a 50-year period, irrespective of any changes in ownership. If the building is subsequently sold, the purchaser will take over the remainder of the allowance for the remainder of the 50-year period.

For a structure or building to qualify for relief, all contracts for the physical construction works, including any contracts for preparatory works, such as land alterations, must be made in writing and be entered into (signed and dated by the bound parties) on or after 29 October 2018. These requirements apply to contracts only, and do not include letters of intent. In most cases, if a written contract for preparatory work on a piece of land has been entered before 29 October 2018 with the intention to build on that land, the eventual structure or building will not qualify for the allowance. However, in some cases, the preparatory work will be unconnected to the eventual building or structure. For example, if an existing building is demolished (a type of preparatory work), but no new structure or building has been planned for that site at the time, this preparatory work is deemed unconnected to any future contract that is entered into regarding any new building or structure. So, as long as any new construction contracts for an eventual structure or building at that site are entered into on or after 29 October 2019, the new structure or building may be eligible for the relief.

Where a structure or building is being constructed for a qualifying activity (i.e. a commercial use) that has not yet commenced, any expenditure incurred more than seven years before the qualifying activity commences will not qualify for relief. A claim can only be made once the qualifying activity has commenced.

Disuse of a Structure or Building

If a building or structure ceases to be used for a qualifying activity, the allowance can still be claimed for a period of up to two years, after which no further relief can be claimed until the qualifying activity resumes. If relief is not claimed, it will not be carried forward to a further period, and will instead be lost.

Where a building or structure is damaged and can no longer be used for a qualifying activity, the allowances will still remain available for a two-year period to allow time for reconstruction. If reconstruction takes longer than two years, the allowances will not be available until the qualifying activity resumes. However, if the damage causes the structure or building to substantially no longer exist, the two-year period may extended up to five years.

Any new expenditure on reconstruction may qualify for the relief in its own right, also at a rate of 2% over a 50-year period. The total eligible costs of renovation will be the net of any costs covered by compensation or insurance.

If a building or structure is demolished, and the owner decides not to replace the building, they can continue to claim the Structural and Buildings Allowance on that asset for the remainder of the 50-year period.

Example

Company A builds a new commercial building where the construction costs were £20m. The company can claim SBA at a rate of:

£30m x 2%= £600,000 per year, for a 50-year period.

20 years after construction, a fire damages the property. The cost of rebuilding will be £10m, however the building was partially insured, and the insurance payments will cover £6m.

If the company chooses to rebuild, then it can continue to claim the £600,000 SBA for the remaining 35 years for the original building. It may also be able to claim SBA on the costs of reconstruction (after taking into account the insurance receipts) at a rate of:

£4m x 2%= £80,000 per year for a 50-year period.

If the company chooses not to rebuild, it may still continue to receive a "shadow SBA" on the original construction costs.

For a structure or building that is leased, more complex rules may apply as to whether the lessor or lessee may be eligible to claim the allowance. If SBA is claimed, then for chargeable gains purposes, a person's allowable cost of the asset will be reduced by the amount of relief claimed.

HOUSEHOLDS WITH LANDLINES SHOULD BE VIGILANT

Over recent years HMRC has increasingly cracked down on email and SMS phishing, and a number of criminals are turning to cold-calling publicly available phone numbers to steal money from taxpayers. These calls are often made to landline numbers. According to Ofcom, nearly 26 million homes have a landline, many of which could be at risk from scams, especially if they are not ex-directory.

Fraudsters often target the elderly and vulnerable using HMRC name as it is well known and adds credibility to a call. HMRC received more than 60,000 reports of phone scams in the six months up to January 2019 (an increase of 360% when compared with the previous six months).

Financial Secretary to the Treasury, said:

'We have taken major steps to crack down on text and email phishing scams leaving fraudsters no choice but to try and con taxpayers over the phone.'

'If you receive a suspicious call to your landline from someone purporting to be from HMRC which threatens legal action, to put you in jail, or payment using vouchers: hang up and report it to HMRC who can work to take them off the network.'

Head of Action Fraud, said:

'*Fraudsters will call your landline claiming to be from reputable organisations such as HMRC. Contact like this is designed to convince you to hand over valuable personal details or your money.'*

'Don't assume anyone who calls you is who they say they are. If a person calls and asks you to make a payment, log in to an online account or offers you a deal, be cautious and seek advice.'

'The tax authority will only ever call you asking for payment on a debt that you are already aware of, either having received a letter about it, or after you've told us you owe some tax, for example through a Self Assessment return.'

During the last 12 months, HMRC has worked with the phone networks and Ofcom to close nearly 450 lines being used by fraudsters.

CALL FOR TAX ON SOCIAL MEDIA BUSINESSES

A group of MPs has called on the government to tax the profits of social media businesses.

The All Party Parliamentary Group (APPG) on Social Media and Young People's Mental Health and Wellbeing recently published a report which outlined the impact of social media on the health of young people.

The APPG has suggested creating a Social Media Health Alliance, which would be funded by a 0.5% tax on the profits of social media companies. MPs hope that the money would be used to fund research and help 'draw up clearer guidance' on the impact of social media on health and wellbeing.

SCOTTISH RESIDENTS

The tax on income (other than savings and dividend income) is different for taxpayers who are resident in Scotland to taxpayers resident elsewhere in the UK. The Scottish income tax rates and bands apply to income such as employment income, self-employed trade profits and property income.

In 2018/19 and 2019/20 there are five income tax rates which range between 19% and 46%. Scottish taxpayers are entitled to the same personal allowance as individuals in the rest of the UK. The two higher rates are 41% and 46% rather than the 40% and 45% rates that apply to such income for other UK residents. For both 2018/19 and 2019/20, the threshold at which the 41% band applies is £43,430 for those who are entitled to the full personal allowance.

WELSH RESIDENTS

From April 2019, the Welsh Government had the right to vary the rates of income tax payable by Welsh taxpayers. The UK government has reduced each of the three rates of income tax paid by Welsh taxpayers by 10 pence. The Welsh Government has set the Welsh rate of income tax at 10 pence which will be added to the reduced rates. This means the tax payable by Welsh taxpayers continues to be the same as that payable by English and Northern Irish taxpayers.

HMRC WINS DISGUISED REMUNERATION AVOIDANCE CASE

HMRC has won a legal case over a contractor loan scheme endorsed by Hyrax Resourcing Ltd. As a result, HMRC will now be able to collect more than £40 million in unpaid taxes.

The scheme in question was a disguised remuneration avoidance scheme, which paid users in loans, rather than salaries, to avoid paying income tax and national insurance contributions on earnings.

Hyrax Resourcing Ltd will now be required to disclose details of the tax avoidance scheme, including the names and addresses of 1,180 individuals who used it. Failure to provide the relevant information could result in Hyrax Resourcing Ltd becoming liable for substantial penalties.

Financial Secretary to the Treasury, said:

'HMRC is cracking down on the unscrupulous promoters who sell these highly contrived tax avoidance loan schemes.

'Promoters need to take note of this decision and make sure they contact HMRC urgently about schemes they haven't yet disclosed.'

GOVERNMENT CONFIRMS IMPLEMENTATION OF PENSIONS DASHBOARDS

The government has confirmed that the initiative to introduce a pensions dashboard will go ahead.

Pensions dashboards will allow those saving for retirement to view information from multiple pensions in one place stating that the dashboard will *'open up pensions to millions',* and *'provide an easy-to-access online view of a saver's pensions'.*

The Department for Work and Pensions (DWP) will bring forward legislation that will require pension scheme providers to make consumers' data available to them through their chosen dashboard. The plan is to include State pension information as well.

The National Chairman of the Federation of Small Businesses (FSB), said:

'The government's commitment to compel pension schemes to share data with platforms through primary legislation is particularly welcome. Some urgency is now required, and we question the three to four-year timeframe for schemes to prepare data for dashboards.'

MONEY LAUNDERING

HMRC has published a list of businesses that have not met their obligations under the Money Laundering Regulations.

As a supervisor of the Money Laundering Regulations HMRC has a duty to publish details of businesses that have been penalised for not complying with the regulations.

HMRC advises that it considers cases individually to decide whether to publish details in full, anonymously, or not at all. Where a decision is made to publish in full, the following information may be published:

- the name and address of the business owner or business
- the nature of the breach or breaches
- the penalty issued by HMRC
- the status of any appeal against the penalty

HMRC publishes anonymously if it considers that the effect of publishing details about an individual or business would be disproportionate.

HMRC TASKFORCE TACKLES DISHONEST DOG BREEDERS

A taskforce has recovered more than £5 million by tackling dishonest dog breeders selling pups on the black market. HMRC set up the taskforce in October 2015 after discussions with animal welfare groups that were concerned that tens of thousands of puppies were being reared in unregulated conditions and sold illicitly every year.

The taskforce uncovered fraudsters selling puppies on a mass scale, for a huge profit and due to the underground nature of the activity, failing to declare their sales.

Using civil and criminal enforcement powers, HMRC has recovered £5,393,035 in lost taxes from 257 separate cases since the formation of the taskforce in October 2015.

The breeders and traders targeted include:

- two unconnected puppy breeders in the west of Scotland who were handed tax bills of £425,000 and £337,000
- a puppy breeder in the Midlands who was a former Crufts judge, given a £185,000 bill
- a dealer in Northern Ireland told to pay £185,000 in tax
- a Somerset puppy breeder was given a £114,000 bill
- a puppy dealer in the east of Scotland was handed a tax bill in excess of £400,000
- a Swansea puppy breeder was given a £110,000 tax bill

Financial Secretary to the Treasury, said:

'It is utterly appalling that anyone would want to treat puppies in such an inhumane way and on such a scale. It's also deeply unfair to all of the legitimate businesses who do pay the right tax, and the total recovered by the taskforce is equivalent to the annual salaries for more than 200 newly qualified teachers.'

'We continue to work hard with other government agencies and our partners to tackle these traders. We urge anyone with information about tax evasion to report it to HMRC online or call our Fraud Hotline on 0800 788 887.'

CONSULTATION ON COMPANIES HOUSE REFORMS

The government has launched a consultation on proposed reforms at Companies House, including a '*major upgrade'* of its register.

The consultation aims to tackle misuse of the register. It also strives to provide business owners with *'greater protection from fraud'.*

The consultation seeks views on a series of reforms to limit the risk of misuse:

- knowing who is setting up, managing and controlling companies
- improving the accuracy and usability of data on the companies register
- protecting personal information on the register
- ensuring compliance, sharing intelligence and other measures to deter abuse of corporate entities

The Chief Executive of Companies House, said:

'This package of reforms represents a significant milestone for Companies House as they will enable us to play a greater part in tackling economic crime, protecting directors from identity theft and fraud, and improving the accuracy of the register.'

TAX GAP REMAINS LOW

HMRC has published a report showing that the UK tax gap in 2017/18 is estimated to be £35 billion. This is 5.6% of total theoretical tax liabilities, and a small increase of 0.1% from 5.5% in 2016/17. HMRC therefore secured 94.4% of all tax due.

The tax gap is the difference between the amount of tax that should be paid to HMRC compared to what is actually paid. Further details in the report show:

- the overall tax gap has fallen from 7.2% since 2005/06
- the duty-only excise tax gap has reduced from 8.4 % in 2005/06 to 5.1% in 2017/18.
- the corporation tax gap has reduced from 12.5% in 2005/06 to 8.1% in 2017/18.

The Financial Secretary to the Treasury, said:

'The UK's low tax gap underlines both how the vast majority of people are paying the correct amount of tax, and how effective HM Revenue and Customs has been in its efforts to clamp down on tax evasion and avoidance.'

The report advises that the majority of taxpayers want to get their tax right, but many are still finding this hard, with avoidable mistakes costing the Exchequer over £9.9 billion a year. HMRC advise that £3 billion of this is attributable to VAT alone.

With the introduction of Making Tax Digital (MTD) for VAT, HMRC anticipates that the tax lost due to avoidable errors will be reduced because of the improved accuracy that digital records provide.

NEW MEASURES TO ENSURE SMALL BUSINESSES GET PAID ON TIME

The government has announced a package of measures to ensure small businesses get paid on time. Under the proposals large businesses could be fined for failing to pay smaller suppliers on time as part of a robust package of measures.

The measures include:

- proposed new powers for the Small Business Commissioner to tackle late payments through fines and binding payment plans
- company boards to be held accountable for supply chain payment practices for first time
- the introduction of a new fund to encourage businesses to use technology to simplify invoicing, payment and credit management.

The government has also announced that responsibility of the voluntary code of best practice, the Prompt Payment Code, will be moved to the Small Business Commissioner.

Small Business Minister said:

'The vast majority of businesses pay their bills on time, with the amount owed in late payments halved over the last five years. But as a former small business owner, I know the huge impact a late payment can have on the ability of a small business to plan, invest and grow.'

'Small businesses are the backbone of our economy and through our modern Industrial Strategy we want to ensure the UK is the best place to start and grow a business. These measures will ensure that small businesses are given the support they need and ensure that they get paid quickly - ending the unacceptable culture of late payment.'

UK INVESTMENT SUPPORT DIRECTORY

International investors who wish to set up and expand their operations in the UK can now benefit from an online tool launched by the Department for International Trade (DIT).

The new tool, termed the UK Investment Support Directory, enables international investors to connect with a range of businesses across the UK. Potential investors can find an expert in their specific industry or region.

According to the DIT, the UK Investment Support Directory has been created to make information about the investment process 'more accessible', and is part of a wider initiative to 'generate more foreign direct investment in the UK'.

The Minister for Investment, said:

'The launch of the new UK Investment Support Directory is one of many ways in which the DIT is helping to drive investment to every corner of the UK. We hope this new directory will be an invaluable resource for investors thinking of setting up operations in the UK.'

PAYMENT ON ACCOUNT CONFUSION

Under self assessment taxpayers are required to make payments on account of their tax liabilities. The payment on account instalments consist of two payments on account of equal amounts:

- the first on 31 Janaury during the tax year, and
- the second on 31 July following the end of the tax year.

These are set by reference to the previous year’s income tax liability and Class 4 NIC if any.

A final payment (or repayment) is due on 31 Janaury following the tax year.

Payments are not due where the previous year’s liability is less than £1,000 or where 80% of the previous year’s bill was met by tax deductions at source.

DIGITAL SERVICES TAX

From April 2020, the government will introduce a new 2% tax on the revenues of search engines, social media platforms and online marketplaces which derive value from UK users. However, this only applies when the group's worldwide revenues from these digital activities are more than £500m and more than £25m of these revenues are derived from UK users.

The Financial Secretary to the Treasury and Paymaster General, said:

'The UK has always sought to lead in finding an international solution to taxing the digital economy. This targeted and proportionate Digital Services Tax is designed to keep our tax system in this area both fair and competitive, pending a longer term international settlement.'

INSOLVENCY HIERARCHY CHANGES

From 6 April 2020, insolvency legislation will be amended to move HMRC up the creditor hierarchy for the distribution of assets in the event of insolvency by making HMRC a secondary preferential creditor in respect of certain tax debts held by a business (this includes individuals and partnerships) on behalf of their customers and employees. This includes VAT, PAYE income tax and CIS deductions.

The rules will remain unchanged for taxes owed by businesses themselves, such as corporation tax and employer National Insurance contributions.

In addition, directors and other persons connected to companies subject to an insolvency procedure will be made jointly and severally liable for amounts payable to HMRC by the company in certain circumstances. This will apply mainly in cases where the company has engaged in avoidance, evasion or 'phoenixism'.

WAGE GROWTH AT A HIGH

Data published by the Office for National Statistics (ONS) has revealed that UK wage growth increased to 3.6% in the year to May 2019, the highest rate since the financial crisis in 2008.

According to the ONS, wages have been rising faster than inflation since March 2018 and that increases to the National Minimum Wage and the National Living Wage have helped wage growth to accelerate. However, the data also showed that average pay is still lower than pre-2008 levels. When average regular pay of £503 is adjusted for inflation to £468 per week it is £5 less than its pre-recession total of £473 a week.

Commenting on the data the Principal Economist at the Confederation of British Industry (CBI), said:

'Despite signs that employment growth is tailing off, the labour market remains tight, with the unemployment rate at a multi-decade low. It's encouraging that pay growth has picked up further, putting more money in people's pockets.'
'But as recent data shows, productivity remains in the doldrums. Reinvigorating efforts to boost productivity is critical. Firms must focus on innovative ways to share new ideas and invest in people and technologies.'

TRUSTS WITH SMALL AMOUNTS OF SAVINGS INCOME

HMRC has confirmed the continuation of the interim arrangement for interest reporting.

In 2016 the requirement for payers to deduct tax at source on bank and building society interest was removed and income from these sources is now paid gross. Due to this change, trustees and personal representatives had increased reporting requirements.

HMRC introduced an interim arrangement so trustees do not have to submit returns, or make payments under informal arrangements, where the only source of income is savings interest and the tax liability is below £100.

HMRC has confirmed that these arrangements have been extended to include the 2020/21 tax year. The situation will continue to be reviewed in the longer term.
Contact us for help with trusts.

SENIOR CLINICIANS' PENSIONS CONSULTATION

The government has launched a consultation on proposals to give senior NHS doctors and nurses access to more flexible pensions. The proposals aim to offer senior clinicians more control over their pensions growth.

The consultation follows reports that senior NHS clinicians pension tax charges are making them retire early or change their working habits. The Department of Health and Social Care estimates that a third of consultants and GPs may be turning down extra shifts because of how the NHS Pension Scheme interacts with the wider pension tax rules.

The new proposals are designed to allow those affected to have freedom to individually control how much their pension fund grows, allowing them to maximise the amount they can save without facing significant pension tax bills having breached limits on tax relief.

The new proposals include:

- a 'flexible accrual' option where scheme members can choose an accrual level in 10% increments
- the option to 'fine tune' pension growth towards the end of the scheme year, when total earnings are clearer.

The consultation closes on 1 November 2019.

HMRC COLLECTS RECORD AMOUNTS OF IHT

The government has announced that HMRC collected a record sum of £5.4 billion in inheritance tax (IHT) during the 2018/19 tax year.
The increase comes on the back of a 15% rise in the number of estates liable for IHT. Between 2015/16 and 2016/17, the number of estates paying IHT rose by 3,600 to 28,100.

Rising asset values, particularly in regard to properties in London and the South East of England, have been a key factor behind the increased number of estates falling into the IHT net. The freezing of the tax-free nil-rate band threshold also played a key role.

The residence nil-rate band (RNRB) gives an additional allowance to people leaving their family home to direct descendants, such as children or grandchildren. The amount of relief is £150,000 for 2019/20, rising to £175,000 for 2020/21.

Despite the increase in estates paying IHT, the tax only applies to 4.6% of deaths in the UK. The average amount of tax paid was £179,000.

CHRISTA ACKROYD LOSES IR35 APPEAL

Former BBC presenter Christa Ackroyd has lost her appeal against a ruling that she was an employee, not a freelance contractor, when she worked for the BBC via a personal service company.

The IR35 rules in broad terms mean that those working via a personal service company have to consider whether, if the services were provided by the individual contractor directly to the client, there would be a contract of employment.

Judges in the Upper Tier Tribunal upheld last year's First Tier Tribunal ruling that she was a BBC employee when she presented Look North in Yorkshire and was therefore liable to pay income tax and national insurance contributions.

The case related to the tax years 2006/07 to 2012/13, while she worked for the public broadcaster through her personal service company, Christa Ackroyd Media (CAM).

HMRC argued that she owed almost £420,000 in income tax and national insurance contributions, before corporation tax deductions.

An HMRC spokesperson said they welcomed the judgment that the presenter was within the intermediary rules.

'*Employment status is never a matter of choice; it is always dictated by the facts and when the wrong tax is being paid, we put things right.*

It is right that an individual who works through a company, but would have been an employee if they were taken on directly, pays broadly the same amount of tax and national insurance contributions as employees.'

The IR35 rules were amended for Public Bodies (including the BBC) from April 2017 and the government are making similar changes for the private sector from April 2020.

CLAMP DOWN ON ENABLERS OF TAX AVOIDANCE SCHEMES

HMRC says it is clamping down on the promoters and enablers of tax avoidance schemes in the wake of the loan charge controversy.

The Director General of Customer Compliance at HMRC, told the Treasury Select Committee that HMRC is 'doubling the resources' to tackle those in the 'avoidance supply chain'.

In response to questions about the loan charge, Ms Ciniewicz said:

'We have more than 100 current investigations into promoters [and enablers], and we're keeping a very close eye on the market for avoidance. We are spotting schemes as they emerge and we're tackling them.'

CHARITIES FRAUD PROTECTION FAILURES

According to a report published by the Charity Commision, the majority of UK charities admit fraud is a major risk, but are still failing to carry out basic tasks in order to protect themselves.

More than 3,300 charities took part in the Charity Commission's survey into fraud awareness, resilience and cyber security in the sector. Over two thirds of charities agree that fraud is a significant risk. Insider fraud is recognised as one of the biggest threats, the report stated.

The survey found that 85% of charities think they are doing everything they can to prevent fraud, but almost half do not have robust protections in place.
The Commission recommended some simple steps that charities could take to protect their funds, including introducing and enforcing basic financial controls. They should also make sure no single individual has oversight or control of financial arrangements, as effective segregation of duties is a crucial method of preventing and detecting fraud.

The Commission also recommends that employees, volunteers and trustees should be encouraged to speak out when they see something they feel uncomfortable about.

TEMPORARY PENSIONS TAX ARRANGEMENT FOR NHS STAFF

In a letter in November 2019, the Secretary of State for Health and Social Care, has agreed to a temporary commitment to make payments to certain clinical staff outside of the NHS pension schemes to restore the value of their pension benefits package. These rules apply if they have elected to use the scheme pays facility to settle an annual allowance tax charge arising from their pension saving in the NHS schemes in 2019/20.

Meanwhile, under a temporary measure the Scottish government is introducing, between 1 December 2019 and 31 March 2020, NHS staff in Scotland who can show they are likely to breach the pensions annual allowance for 2019/20 will be able to receive pay in lieu of employer pension contributions.

The announcements follow reports that senior NHS clinicians pension tax charges are making them retire early or change their working habits. The Department of Health and Social Care estimates that a third of consultants and GPs may be turning down extra shifts because of how the NHS Pension Scheme interacts with the wider pension tax rules.

HMRC ISSUES GUIDANCE ON CRYPTOASSETS

HMRC has published guidance for people who hold cryptoassets, typically cryptocurrency or Bitcoin, explaining what taxes they may need to pay and what records they need to keep. HMRC has also published further information for businesses and companies about the tax treatment of cryptoasset transactions.

HMRC advises that these papers set out HMRC's view of the appropriate tax treatment of cryptoassets, based on the law as it stands on the date of publication and that the tax policy in this area may develop as the sector develops.

RESEARCH AND DEVELOPMENT SPEND

The Office for National Statistics (ONS) has revealed that UK businesses spent £25 billion on Research and Development (R&D) in 2018.

Data from the ONS showed that total R&D expenditure increased from £23.7 billion in 2017 to £25 billion in 2018.

The report showed:

- the aerospace industry saw the largest increase in R&D expenditure with a total spend of £210 million
- the UK telecoms sector also experienced fast growth in R&D spending, increasing by 25.4% in 2018 to £192 million.

According to the ONS, the government's funding of R&D amounted to £1.7 billion in 2018, which accounted for 6.9% of all R&D expenditure. The data revealed that machinery, equipment and shipbuilding were the biggest beneficiaries from government funding.

MINIMUM WAGE RATES ANNOUNCED

The government has announced a 6.2% increase in the National Living Wage (NLW), which applies to workers aged 25 and over. From 1 April 2020 the NLW will rise from the current rate of £8.21 to £8.72 an hour, in the largest raise since it was introduced two decades ago.

The government has confirmed that the new rate will start on 1 April 2020 and will result in an increase of £930 annually for 2.8 million full-time workers earning the NLW.

Workers aged under 25 earning the National Minimum Wage (NMW) will also see increases of between 4.6% and 6.5%, depending on their age.

Bryan Sanderson, Chair of the Low Pay Commission (LPC), said:

'The NLW has been an ambitious long-term intervention in the labour market. The rate has increased faster than inflation, faster than average earnings and faster than most international comparators.
'This has raised pay for millions without costing jobs, although employers have had to make a variety of other adjustments to deal with the increases.'

REVIEW OF THE DISGUISED REMUNERATION LOAN CHARGE

The government has announced it will make a number of changes to the loan charge rules, in response to Sir Amyas Morse's independent review of the loan charge policy and its implementation.

The government has announced the following key changes to the loan charge:

- the loan charge will apply only to outstanding loans made on, or after, 9 December 2010
- the loan charge will not apply to outstanding loans made in any tax years before 6 April 2016 where the avoidance scheme use was fully disclosed to HMRC and HMRC did not take action
- affected taxpayers can elect to spread the amount of their outstanding loan balance evenly across three tax years: 2018/19, 2019/20 and 2020/21.

RETIRING CLINICIANS PAYMENTS

The Secretary of State has confirmed that the commitments being entered into, to make payments to clinicians affected by annual allowance pension tax, will be honoured when clinicians retire.

In a written statement the Secretary of State for Health and Social Care stated:

'I have agreed to support this proposal from NHS England and NHS Improvement for reasons of urgent operational necessity….

'The scheme involves employers making binding contractual commitments to be given to every affected NHS clinician so as to ensure that this commitment is honoured. Full details of the terms of the payment arrangements are set out in letters that are being sent to each affected clinician by their employer including the terms and conditions of the offer.

'Clinicians are therefore now immediately able to take on additional shifts or sessions without worrying about an annual allowance charge on their pensions.'

CALL FOR REVIEW OF HIGH INCOME CHILD BENEFIT CHARGE

The Low Incomes Tax Reform Group (LITRG) is calling on the government to address issues with the High Income Child Benefit Charge (HICBC).

The HICBC is designed to claw back child benefit where the claimant or their partner earns in excess of £50,000. According to LITRG some households think making a child benefit claim is not worthwhile if it will be clawed back in full via the tax charge, with the added administrative burden of needing to complete a tax return. LITRG warns that this trend will have unforeseen consequences for the lower-earning partner and for the child.

LITRG is calling for the Government to reconsider the £50,000 threshold at which the HICBC starts to apply, if it is retained in its current form.

Head of LITRG Team, said:

'Despite its name, the high income child benefit charge can have consequences for the lower earner in a couple even though the liability to the tax charge falls to the higher earner. This is because where the tax charge applies a household may decide, quite understandably, not to claim child benefit at all. But this means that the lower earning individual may miss out on National Insurance credits, due for the first 12 years, which help to build entitlement towards a state pension.

'The Government's solution is to allow couples to claim child benefit regardless and, if they wish to avoid the charge, they can choose not to receive payments – but this is not widely known and to many, claiming and receiving a benefit are the same thing.

'This is a problem which is affecting an increasing number of families because the £50,000 threshold has remained static since the charge was introduced in 2013. At that time, the HICBC was intended to affect only the top 10 percent of earners, but each year the proportion of those affected increases as wages rise. LITRG recommends that the next Government considers uprating the £50,000 threshold, just like some other tax thresholds and allowances, to minimise the adverse consequences for those families it affects and ensure the policy works in the way originally intended.'

BREXIT – TRANSITION PERIOD

The leaders of the UK and European Union signed the Withdrawal Agreement, and the UK left the EU on 31 January 2020. However the UK is now in the transition or implementation period during which time it is 'business as usual' as the UK is covered by EU rules until the end of the year. By 2021 the UK aims to have agreed a deal on future arrangements with the EU and the rest of the world.

HMRC has contacted businesses in the UK who may import and export between the UK and the EU to explain what they can do to prepare for changes to customs arrangements after the UK has left the EU.

No change during the implementation period

Between 1 February and 31 December 2020, there will be an implementation period. HMRC has confirmed that there will be no changes to the terms of trade with the EU or the rest of the world during this time.

From 1 January 2021, the way businesses trade with the EU will change and HMRC is reminding businesses that they should prepare for life outside the EU, including ensuring they are ready for customs arrangements.

HMRC is advising businesses to:

- make sure they have a UK Economic Operator Registration and Identification (EORI) number
- prepare to make customs declarations.

HMRC has posted letters to 220,000 VAT registered businesses advising them on the current position.

We wil advise you on the progress of negotiations and what these will mean for your business.

SCOTTISH BUDGET

Minister for Public Finance and Digital Economy, Kate Forbes, delivered the 2020/21 Scottish Draft Budget on Thursday 6 February 2020, setting out the Scottish Government's financial and tax plans.

The current Scottish income tax rates and bands for 2019/20 and the proposed rates and bands for 2020/21 on non-savings and non-dividend income are as follows:

Scottish Bands 2019/20	**Scottish Bands 2020/21**	**Band name**	**Scottish Rates**
£12,501* - £14,549	£12,501* - £14,585	Starter	19%
£14,550 - £24,944	£14,586 - £25,158	Scottish Basic	20%
£24,945 - £43,430	£25,159 - £43,430	Intermediate	21%
£43,431 - £150,000**	£43,431 - £150,000**	Higher	41%
Above £150,000**	Above £150,000**	Top	46%

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

* Assumes individuals are in receipt of the Standard 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.

In the 2018 Autumn Budget, the UK Government announced that the UK-wide personal allowance would be frozen at its current level of £12,500 in 2020/21. The UK higher rate tax point for 2020/21 is also expected to be frozen at the 2019/20 amount of £50,000 (for those entitled to the full UK personal allowance) and the tax rates for non-savings and non-dividend income are expected to be maintained at 20%, 40% and 45% respectively. The additional rate of 45% is payable on income over £150,000.

Land and Buildings Transaction Tax change to non-residential rates and bands

The Government announced the introduction of a new 2% band for non-residential leases which will come into effect for contracts entered into on or after 7 February 2020. The rates and bands 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%	£150,001 to £2 million	1%
Over £250,000	5%	Over £2 million	2%

A DECADE OF BIZARRE EXCUSES AND EXPENSE CLAIMS

Vengeful witches and pet hamsters feature in HMRC's list of imaginative excuses and expense claims, which has been published in the run up to the self assessment deadline.

HMRC has compiled a list of the weirdest unsuccessful excuses from the last decade.

The list includes one taxpayer who claimed their mother-in law was a witch who had cursed them, hamsters and dogs that had eaten the post and a taxpayer who was up a mountain without internet access.

HMRC also reported questionable expense claims including pet food for a Shih Tzu 'guard dog' and 250 days of claims for a £4.50 sausage and chips meal.

Commenting on the list, HMRC Director General of Customer Services, said:

'Each year, we try to make it as easy and simple as possible for our customers to complete their tax returns and the majority make the effort to do their's right and on time.

'We always offer help to those who have a genuine excuse for not submitting their return on time. It is unfair to the majority of honest taxpayers when others make bogus claims.'

OFF-PAYROLL WORKING

HMRC has now published draft secondary legislation for the off-payroll working rules that are due to come into force in April this year.

In 2017, HMRC introduced new off-payroll rules to the public sector, which saw some contractors' net income cut significantly.

HMRC also shifted the responsibility for compliance from individual contractors to public bodies or recruitment agencies.

From 6 April 2020, the new tax rules will use the 2017 changes as a starting point for the extension to medium and large organisations in the private sector. These reforms will shift the responsibility for assessing employment status to the medium and large organisations engaging the individual worker via and intermediary.

The Financial Secretary to the Treasury, said:

'We recognise that concerns have been raised about the forthcoming reforms to the off-payroll working rules. The purpose of this consultation is to make sure that the implementation of these changes in April is as smooth as possible.'

CHANGES TO OVERDRAFT FEES

The Financial Conduct Authority (FCA) has confirmed it will introduce new rules in April this year that it says will make the costs of overdrafts clearer and easier to compare.

The rules will mean banks can only charge for overdraft users a simple annual interest rate – without additional fees and charges.

According to the FCA, seven out of ten overdraft users will be better off or see no change in cost.

The Executive Director of Strategy and Competition at the FCA, said:

'Our changes expose the true cost of an overdraft. We have eliminated high prices for unarranged overdrafts.

'This will result in a fairer distribution of charges, helping vulnerable consumers, who were disproportionately hit by high unarranged overdraft charges, and many people who use their overdraft from time-to-time.'

However, many banks have responded by hiking the interest rates they charge on overdrafts and several of the largest providers are set to introduce rates of up to 40%.

The FCA has sent a letter to the providers asking them to explain what influenced their decision and to ask how the banks will deal with any customers who could be worse off following the changes.

It said some firms could reduce or waive interest for customers who are in financial difficulty because of their overdraft.

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