dmc newsletter

AUTUMN 2019

WELCOME - DMC News

Congratulations to Kim Edwards who has recently completed and successfully passed her final paper in the ACCA exams. Kim has been helping many of our clients to comply with the new **Making Tax Digital (MTD)** requirements for VAT. Most of our clients who are required to prepare their VAT returns under the new regime have already successfully filed their first return. If you are experiencing any difficulties, please do contact one of our team.

Reverse Charge for the Construction Industry

HMRC's new domestic reverse charge for construction services was due to come into force on 1 October 2019. Essentially construction industry contractors charging other VAT and CIS registered contractors (not end users) for services, would no longer be required to add VAT to their invoices. Instead they would notify their customer that they are liable to account for the VAT on the supply received (hence the term reverse charge). HMRC has announced that these new procedures will now be **delayed until 1 October 2020**

Off-Payroll working changes

The proposed changes, due to start on 6 April 2020, will extend the 'off-payroll' working rules to include contractors working for medium and large private businesses, currently they apply only to those working for public sector organisations Let us hope that the ICAEW is successful in its bid to get the start date pushed back - to allow ambiguities in the proposed legislation to be sorted out.

Corporate Intangibles – new relief

Since 8 July 2015 the amortisation of goodwill has not been eligible for tax relief. Following consultation, a new targeted relief has been introduced for qualifying intellectual property (IP) on acquisition of a business. For purchases made after 1 April 2019 relief will be given at a fixed rate of 6.5% on potentially up to 6 times the value of any qualifying IP, the restrictions continue to apply to internally generated goodwill acquired from related parties. Pre 1 April 2019 acquisitions will be subject to the tax treatment prevailing at the time acquired.

The Future is Electric

Jaguar Land Rover is investing millions to build a range of electric vehicles at its plant in Birmingham and the tax system is being developed to reward the purchase of this type of vehicle. From April 2020, the benefit in kind relating to plug in models produces a much lower taxable benefit at 2% of list price for pure electric models. Additionally, employers can pay for charging the company car with no BIK for this even if the car is used for private purposes. Employers can also claim First Year allowances for installing electric charge points and the purchase of new electric vehicles. This means company/business electric cars may become more tax efficient.

Furnished Holiday Lets (FHL)

Furnished holiday lettings can be a useful planning asset and apply to all short lettings not just a "cottage by the sea". There are many advantages to holding this kind of property as a letting investment, for example the new interest restriction does not apply, and ownership counts as a business investment and therefore Entrepreneurs relief could possibly apply to capital gains tax on sale. Furniture will also qualify for the Annual Investment allowance. Additionally, FHL income is treated as earned income for pension contribution purposes and the sale of the property is a qualifying asset for Capital Gains tax roll over relief. A property will be treated as an FHL if **all** of the following conditions are satisfied:

-the property needs to be furnished
-it must be in the UK or any EEA state
-it must be available for commercial letting for at least 210 days in a 12 month period
-out of those 210 days it must actually be let out for 105 days or more

There must not be any long term lets in the period, which means a continuous period of 31 days or more.

Capital Allowances – A Recap

The cost of purchasing capital equipment in a business is not treated as a revenue deduction, but tax relief is available on certain expenditure in the form of capital allowances. CA's are generally not affected by how they are financed so loan, HP and outright purchases are broadly treated the same for tax relief. However, assets under finance or operating leases/rentals are relieved against profit via different rules.

- There are differing rules for plant and machinery, cars, integral features, long life assets, short life assets and environmentally friendly equipment.
- Most capital allowance expenditure is pooled, but there are exceptions for short life assets and private use assets as an example.
- Some expenditure is relieved over time via a writing down allowance, but there is scope for annual and first year allowances to give relief in year of purchase.
- There is also a new relief for expenditure incurred on business-related buildings and structures on or after 29 October 2018 attracting a 2% writing down allowance.

Capital allowances can be complex, so it is important you keep us informed as to intended purchases to help us advise accordingly.

Minimum Wages

Some companies have fallen foul of the minimum wage rules by failing to account for time spent by employees on training and uniform changes. It is important to monitor ages, and hourly rates to ensure that you comply with the rules. As a reminder, rates from 1 April 2019, are

£8.21 aged 25 and over
£7.70 workers aged 21 to 24 inclusive
£6.15 for young workers 18 to 20 inclusive
£4.35 for workers aged 16 to 17, and over the compulsory school age but under 18
£3.90 for apprentices who are either under 19, or over 19 in the first year of apprenticeship. (you can only pay the apprentice rate if there is a formal apprenticeship contract)

Capital gains tax changes

Following on from a consultation period, the final detail has now been announced in respect of the changes to principal private residence relief. In the case of a main residence that has at some stage been let out, these changes could produce a much higher gain for property sold after 5th April 2020.

You may wish to review the potential tax payable and to possibly advance a disposal in order to secure the more beneficial reliefs.

The main changes to the reliefs are as follows:

- the final period exemption is reduced from 18 months to 9 months (whilst retaining the 36 months that are available to disabled persons or those in a care home)
- possibly more significantly, letting relief (currently available for periods where you have let out your main residence whilst living elsewhere), is reformed so that it only applies where the owner of the property shares occupancy with a tenant - so only where you have lodgers.
- There is no retention of any accrued lettings relief, so it is a question of "use it or lose it".

A further change to CGT on sale of residential property comes into force from April 2020 for UK taxpayers. They will be required to report the disposal and pay any CGT within 30 days of completion of the sale.

AND FINALLY

Don't forget to consider if Research and Development relief applies to your trade. This is a valuable relief available to limited companies that spend money developing new products, processes or services. It can take place in any sector including digital or software development. But note from 1st April 2020 there will be a restriction on the tax credit payable.

Please do speak to us if you want to discuss whether this relief could apply to your business.

You can reach us on 01342 824181

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