allotts
chartered accountants

Curtains for the annual tax return?

Millions of taxpayers will no longer have to make annual tax returns if plans outlined in the Budget come to fruition. But the timetable for giving personalised digital accounts to over 50 million individuals and small businesses by 2020 is ambitious, and it is worth remembering that other big government IT projects have run into difficulties.

The idea is that the digital accounts will bring together everything needed to calculate an individual's tax position. This will include details that HM Revenue & Customs (HMRC) already holds, such as pensions and income taxed under PAYE, and third party material including savings income. Data will be added in real time so taxpayers will know how much they owe through the year. Taxpayers will be able to register, update and file information at any time. They will also make tax payments directly from the account with an option to 'pay as you go'.

As a first step, the UK's five million small businesses and the first ten million individuals will be moved onto the new electronic tax system by early 2016. Early beneficiaries are likely to be higher rate taxpayers who entered self-assessment because they or a family member receives child benefit.

Taxpayers remain responsible

HMRC will not be able to gather all information automatically. Taxpayers will remain responsible for reporting any other income and chargeable gains and, crucially, for the accuracy of their tax bills. Small businesses and companies will still have to supply details of their income and expenses. But the plans include the prospect of business accounting software feeding data straight into digital tax accounts so that most businesses will log in just to check their details with no need to send a return. They will be able to let agents manage the account on their behalf. HMRC promises 'extra help and support' for people who have difficulty going online.

Another benefit for businesses will be that information about all their liabilities, including VAT and PAYE, will be held on the same digital account. In time, small businesses will be able to use their digital accounts to access tailored government support to help their business grow. So make sure you get in touch with us about how this initiative may affect you.

Allotts Chartered Accountants

Doncaster
Sidings Court, Lakeside
Doncaster DN4 5NU
Tel: 01302 349218
Fax: 01302 321739
Email: donc@allotts.co.uk

Rotherham
The Old Grammar School
13 Moorgate Road
Rotherham S60 2EN
Tel: 01709 828400
Fax: 01709 829807
Email: info@allotts.co.uk

Directors
J N (Jackie) Saunders BA FCA DCha
Steven G Pepper FCA, Neil S Highfield FCA
Steven Watson BA ACA CTA
Mark Garrison BCom FCA DCha

Consultant
A E (Tony) Grice BA FCA Cert PFS

Financial Services
01709 828400
Email: fsd@allotts.co.uk

www.allotts.co.uk

Allotts Chartered Accountants is the trading name of Allotts Business Services Ltd. Registered in England and Wales Registered No 07453228.

Registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales.

In this issue:

This newsletter is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. The newsletter represents our understanding of law and HM Revenue & Customs practice as at 1 May 2015.

Pension planning: yet more changes

As people were preparing for 'pension freedom' from 6 April 2015, the Budget brought yet more changes to pension planning with a proposed cut in the lifetime allowance from £1.25 million to £1 million from April 2016.

The change will come with a new set of transitional provisions. From April 2018 the lifetime allowance will be index-linked – if the rules aren't changed again.

At current rates, £1 million will buy an index-linked pension with spouse's benefits of about £27,000. With further reductions to tax relief on pension contributions likely over the next few years, now is a good time to maximise payments while you can still claim tax relief on up to £40,000 a year at your highest rate.

Annuities

Buying an annuity has become much less popular. However annuities should not be dismissed entirely because they are the only way to deliver a guaranteed income stream in retirement no matter how long you live. The new pension rules allow a combination of income drawdown and an annuity. You could use part of your fund to buy an annuity, but keep the rest invested to hopefully boost overall returns.

If you opt for income drawdown, you need to be aware of the tax implications. The most important is that only 25% of your pension can be taken tax free. The rest will be taxed as your income as it is withdrawn, at 20%, 40% or 45%.

Flexi-access drawdown normally enables you to withdraw (or crystallise) your tax free lump sum, leaving the balance of your fund invested. Alternatively, you can draw an uncrystallised funds pension lump sum (UFPLS), in which case 25% is paid tax free and 75% is taxed as income. The balance of the fund stays invested. You can take a series of UFPLS payments, each of which is treated as a mix of 25% tax-free cash and 75% taxable funds.

What is essential is to take professional advice. Drawing a substantial sum from your pension early presents risks. Some schemes may not offer pension freedom, in which case you will have to change provider. There are additional considerations if you are in a final salary scheme. Please let us know if you need advice.

Cashing in on flexible ISAs

In his 2015 Budget, the Chancellor tried to put some much needed life back into cash ISAs with a substantial uplift to the investment limit. But the tax-free personal savings allowance announced in this year's Budget statement could actually make cash ISAs redundant for many savers from April 2016.

The idea is that annual savings income up to £1,000 will be exempt for basic rate taxpayers, with £500 exempt for higher rate taxpayers. Given current savings rates, a basic rate taxpayer will need around £45,000 invested before having to worry about an account's tax status. Higher and additional rate taxpayers should still find cash ISAs valuable, as will anyone aiming to build up substantial long-term savings.

As something of a counterbalance, from this autumn the cash ISA investment limit is to become completely flexible. Currently, if you invest the limit of £15,240 and then withdraw it, no further investment is allowed during the same tax year. This restriction will go, enabling you to replace the money in your cash ISA.

There is one group of savers that will definitely want to stick with cash ISAs, and that is first-time home buyers. A 'help-to-buy' cash ISA is planned for the autumn, with the key selling point being a 25% tax-free bonus paid by the government on both the amount invested and the accumulated interest. The bonus will be paid when the savings are used to purchase a home for up to £450,000 in London, or £250,000 elsewhere.

A maximum bonus of £3,000 will be available when ISA savings reach £12,000, although a couple buying together can both qualify. Some £30,000 could therefore be available towards a deposit. The initial investment will be limited to £1,000, with a maximum monthly saving of £200 thereafter. Given current interest rates, it will take about four and a half years to build up the savings necessary to qualify for the maximum bonus.

Although none of these changes are definite, it is now finally possible to transfer the savings in a child trust fund to a junior ISA. Better interest rates, lower fund charges, and automatic transfer into a normal ISA at age 18 are all good reasons to do so.

HMRC's updated advisory fuel rates provide guidelines for reimbursing fuel costs to employees and others. They are the lowest since 2010, reflecting the six-month collapse of pump prices that came to an end in February 2015. There has since been a modest rebound. The current rates, which see 2p or 3p reductions to all petrol and diesel rates, are:

Engine size	Petrol	Diesel	LPG
1,400cc or less	11	9	8
1,401cc to 1,600cc	13	11	10
1,601cc to 2,000cc	13	11	10
Over 2,000cc	20	14	14

Rates will be reviewed again on 1 June, although current rates can be used for a further month after then.

All change: tax on land transactions

The last few months have seen something of a sea change in the way that property transactions are taxed. Last December, stamp duty land tax (SDLT) on residential properties moved from a 'slab' basis to a 'slice' basis.

Land and buildings transaction tax (LBTT) has now replaced stamp duty land tax (SDLT) in Scotland from 1 April. Same tax rates, but different bands:

Rest of UK	Scotland	Rate
Up to £125,000	Up to £145,000	0%
£125,001 – £250,000	£145,001 – £250,000	2%
£250,001 – £925,000	£250,001 – £325,000	5%
£925,001 – £1,500,000	£325,001 – £750,000	10%
Over £1,500,000	Over £750,000	12%

For example, SDLT for a £450,000 house purchased in England will be £12,500. LBTT on a similar Scottish property is £18,350. The higher Scottish exempt band means that £400 less tax is paid on lower valued transactions, but more tax is due where values exceed £333,000. Unlike SDLT, grants of residential leases are not subject to LBTT.

There has been no change in the way that SDLT taxes commercial land transactions, with the slab basis still used in the rest of the UK. LBTT is slice-based, with rates being:

Scotland – commercial	Rate
Up to £150,000	0%
£150,001 – £350,000	3%
Over £350,000	4.5%

The treatment of commercial leases also differs, although the basic approach is the same – both taxes charge a rate of 1% on the net present value of rent over the term of a lease on the value exceeding £150,000. For leases of over five years, SDLT takes the highest rent payable in the first five years and then applies it to the remaining years of the lease. LBTT instead uses the actual amount of rent payable over the lease term, using estimates as necessary. A revised return then has to be submitted to Revenue Scotland every third anniversary to ensure that LBTT reflects the rent actually paid. Any premium is taxed on the same basis as a freehold purchase.


iStock©Roberthyrons

Both taxes have similar reliefs, but sub-sale relief is an exception. SDLT sub-sale relief prevents a double charge where a property transaction happens in stages. There is no such across the board relief in Scotland, just a targeted relief for development transactions.

Be warned that the anti-avoidance rate of 15% charged where companies buy residential properties valued at over £500,000 still applies in Scotland.

Deeds of variation under scrutiny

A review of the use of deeds of variation was one of the Chancellor's announcement in the March Budget, citing concerns that they are being used for tax avoidance.

The announcement has raised fears that it will no longer be possible for an estate to be passed as the family wishes where there is a badly written will, circumstances have changed or there is no will at all; and over two-thirds of people have not made a will.

A deed must be completed within two years of death, and the basic rule is that any beneficiary who loses out must agree to the variation.
Of course the use of a deed of variation does offer plenty of scope for post-death inheritance tax planning, but nothing that the deceased could not have easily accomplished. An already wealthy beneficiary could divert an inheritance to their children, usefully skipping a generation.

Or if an estate is left entirely to a spouse, the nil rate band could be made use of on first death; a good idea if rapidly appreciating assets are involved.

Deeds of variation have come under threat before, so our advice is to draw up a tax-efficient will, and then keep it updated.

Ultra-low emission vehicles tax changes

An ultra-low emission vehicle is one that produces less than 75g/km of CO_2. Such vehicles benefit from a number of tax advantages, although somewhat less so since 6 April.

Electric cars: The use of an all-electric company car, with zero emissions, was previously a tax-free benefit. But this has changed, with the benefit currently based on 5% of the car's list price. Over the next four years, the percentage used will increase to 7%, 9%, 13% and then to 16% for 2019/20. However, there is no fuel benefit, even if you charge up your car's battery at work. When you charge up your battery at home you also benefit from a 5% VAT rate on the electricity used, compared to the standard 20% rate. For employers, the cost of a new electric car qualifies for a 100% first-year allowance (FYA). This allowance has just been extended to 31 March 2018.

Other ultra-low emission cars: Cars with CO_2 emissions up to 50g/km have the same benefit charge as an electric car. Where emissions are between 51 and 75g/km, the charge is 9%. This is a 4% hike from last year, and the charge will rise to 19% by 2019/20. As for electric cars, the 100% FYA is available, although since 1 April the qualifying emissions limit has been reduced to 75g/km. You also benefit from the 5% VAT rate when recharging a hybrid at home.

Electric vans: The exemption for company provided zero-emission vans is being withdrawn on a tapered basis. For the current year, the charge is 20% of the £3,150 van benefit. This will rise in steps until 2020/21, when the full benefit charge will apply. As for electric cars, there is no van fuel benefit, and zero-emission goods vehicles are eligible for the 100% FYA.

And there are other advantages. Cars with CO_2 emission rates up to 100g/km do not pay any vehicle excise duty. Electric and plug-in hybrid cars with emissions up to 75g/km can qualify for

iStock©Omada

a grant of 35% off of the car's cost, subject to a grant cap of £5,000. For vans, the grant is 20%, with a cap of £8,000. Then there is the ultra-low emission zone to be introduced to central London from September 2020, with drivers of non-compliant vehicles charged to enter.

Perhaps not surprisingly in an election year, the government has announced some of the biggest real-term rises to national minimum wage (NMW) rates in recent years. From 1 October 2015, the hourly rates for workers aged 18 or over will go up by 3%, with a 2% increase for 16 and 17 year olds. The biggest winners are apprentices, who will benefit by an uplift of 57p; an increase of more than 20%. Current and future rates are:

Age	Current	Future
21 and over	£6.50	£6.70
18 to 20	£5.13	£5.30
16 or 17	£3.79	£3.87
Apprentices under 19 or in first year	£2.73	£3.30

TAX CALENDAR

Every month

1 Annual corporation tax due for companies (other than large companies) with year ending nine months and a day previously, e.g. tax due 1 October 2015 for year ending 31 December 2014.

14 Quarterly instalment of corporation tax due for large companies (month depends on accounting year end).

19 Pay PAYE/NIC and CIS deductions for period ending 5th of the month if not paying electronically. Submit CIS contractors' monthly return.

22 PAYE/NIC and CIS deductions paid electronically should have cleared into HMRC bank account.

30/31 Submit CT600 for year ending 12 months previously. Last day to amend CT600 for year ending 24 months previously.

File accounts with Companies House for private companies with year ending nine months previously and for public companies with year ending six months previously.

If the due date for payment falls on a weekend or bank holiday, payment must be made by the previous working day.

MAY 2015

19 Deadline to submit RTI earlier year update for 2014/15 and avoid a penalty if the final FPS for any employee was not made by 19 April.

31 Last day to issue 2014/15 P60s to employees (Sunday).

JUNE 2015

1 Start of staging-in period for businesses with under 30 employees to automatically enrol staff into a workplace pension scheme.

9 Deadline for solicitors who have notified under the Solicitors Tax Campaign to disclose undeclared income.

JULY 2015

5 Last date to agree a 2014/15 PAYE Settlement Agreement (PSA) with HMRC.

6 Deadline for employers to make returns of expenses and benefits (forms P11D, P9D and P11D (b)) for 2014/15 to HMRC and provide copies to employees.

6 Deadline for online registration of all employee share schemes, and for online filing of returns for 2014/15.

10 Final six-monthly direct debit for Class 2 NIC (replaced by collection of Class 2 NIC via self-assessment).

14 Last day to issue 2014/15 P60s to employees (Sunday).

31 Last day to issue 2014/15 P60s to employees (Sunday).

AUGUST 2015

1 Penalty of 5% of the tax due or £300, whichever is the greater, where the 2013/14 tax return has not been filed.

2 Submit employer forms P46 (car) for quarter to 5 July 2015.