

JTC NEWSLINE

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Making Tax Digital

Because a sudden general election was called there was no time to debate the Finance Bill in full and certain measures had to be dropped in order to get urgent legislation through and into force. The 'Making Tax Digital' clauses were part of the legislation that was put 'on hold' and dropped because it is so unpopular and could not go into law without a full debate.

However HMRC are continuing with their pilot so that the underlying software and hardware they would need is in place and works. You or someone you know may be invited to join the pilot. If this happens it is worth considering being a guinea pig to know how to operate before any penalties are introduced.

If the measures announced in the Budget are made law with the new Government, all unincorporated traders who are VAT registered will start moving into the MTD regime from 5 April 2018. All unincorporated traders below the VAT threshold will move a year later from April 2019. All companies will start a year after that from April 2020. But do not close your eyes and think these dates are a long way off. It is important to keep talking to your software providers and accountants to make sure that you make a smooth transition into the new scheme and know what it is going to cost you in advance. ■

Employment status indicator online tool - NEW

There is a new version of the HMRC employment indicator tool online. It replaces the old one and it is important to recheck any worker who you tax as self-employed but whose relationship to your business is 'close'. ■

Cash basis for calculating taxable profits

The threshold under which a business can account on a cash basis has gone up to £150,000 receipts per annum. The business can remain accounting on a cash basis until their turnover exceeds £300,000 per annum. This is very useful in construction where work invoiced may not be paid for some time if at all. It means that you only pay taxes on receipts and actual expenditure rather than sums invoiced. Accounting is simpler and more easily understood for most small traders on a cash basis. Businesses entitled to use it should always consider doing so. ■

Topping up a poor NIC record

Anyone who is self-employed and has had years with low profits should check their National Insurance record and make up any deficiencies before voluntary contributions become more costly.

From April 2018, class 2 is to be abolished and self-employed workers will have to pay the more expensive class 3 contributions to build up entitlements to contributory benefits. It can be worth checking the last 6 years to ensure that there are no gaps and plugging any holes by exercising the right to make back payments of class 2 for the relevant years. Many self-employed construction workers are thought to have 'holes' in their record. ■

Tax-free allowances on property and trading income

From 6 April 2017 anyone with small amounts of property or trading income should know that they can have up to £1,000 a year tax-free allowance. If they have both types of income they can have both allowances. If the income is less than £1,000 they do not have to tell HMRC, if it is higher they will. The income is measured gross, before expenses. The allowance will act to remove small amounts of strictly taxable income from the tax net and may remove the need to claim expenses. It is described as being likely to be suitable for people with babysitting or gardening income or who hire out small items of personal equipment. ■

Tax codes

From 31 May HMRC will start to use Real Time Information to make automatic adjustments to PAYE tax codes as they happen, rather than waiting until the end of the tax year. Keep a watchful eye out for tax code change notices and implement them as they arrive. ■

Apprenticeship Levy

A reminder that this came into effect on 6 April 2017 but that only employers with a pay bill over £3m will have to report and pay. Where it applies, reports have to be made through the EPS within 14 days of the end of each tax month. **The first report is due by 19 May 2017.** ■

Fraud Hotline

People wishing to report fraud or evasion from 4 April 2017 will be able to contact HMRC using the HMRC Fraud Hotline - on 0800 788 887 - between 8am-8pm seven days a week. ■

Deadline for P60s

Employees on the payroll at 5 April 2017 should have received their P60 by 31 May 2017. Check that this has been done or is well underway. ■

Employment intermediaries

- The quarterly return for the period to 5 April 2017 has to be filed by 5 May 2017.
- If you previously submitted returns but have supplied fewer than two workers this quarter you need to file a nil report.
- If you have ceased to be an employment intermediary you need to tell HMRC. ■

Reporting expenses and Benefits in Kind (BIKs) for 2016-2017

The deadline for reporting expenses and BIKs to HMRC for 2016-17 is 6 July 2017.

- If you've payrolled any benefits you need to:
 - Submit a P11D for any non-payrolled benefits.
 - Submit a P11D(b) for Class 1A NICs due on all benefits (including any payrolled ones).
 - Give your employees a letter telling them what you have payrolled.
- If the new exemption for paid and reimbursed expenses applies you don't need to include any amounts on the P11D.
- HMRC's online service no longer pre-populates the total amount liable to Class 1A NICs from the P11D figures. This is to allow employers who payroll benefits to use the service.
- To make a Class 1A payment you need to use your normal Accounts Office reference plus the numbers 1713 at the end.
- 2016-17 will be the last year you can submit P11D and P11D(b) via EDI or Magnetic Media. **From 2017-18 onwards you will have to submit by XML via the Government Gateway.** ■

Employee expenses

You should remind employees that they may be able to claim tax relief online (via form P87) if they have work related expenses which haven't been reimbursed by your business. ■

Call for evidence: employee expenses

HMRC have published a call for evidence: '**Taxation of employee expenses call for evidence**' in respect of the use of income tax relief for employee business expenses, including those not reimbursed by employers.

Many parts of construction have workers who work on site away from home for days or weeks. There are all sorts of company practises that have developed to pay expenses and frequently not all expenses incurred are refunded by an employer. The employee can make their own claim for non-refunded expenses on their tax return. Often workers employ agents to recover this tax relief even though it is quite possible that they could have claimed themselves, and therefore, got more money back.

HMRC highlight that:

- Tax relief claimed by employees for non-reimbursed expenses costs £800m a year.
- There was a 25% increase in such claims between 2009/10 and 2014/15.
- There appears to be an increase in the use of agents, who claim tax relief on behalf of employees in return for commission.

Although there are no plans to remove reliefs for employee expenses, the government want to understand their use better. The main objectives of the call for evidence are to determine:

- If the current rules or their administration can be made clearer and simpler.
- Whether the tax rules for expenses are fit for purpose in the modern economy.
- Why the tax relief claimed has increased so much.

The deadline for responses is 12 June 2017. HMRC would prefer to receive these by email to **employeebenefitsandexpenses@hmtreasury.gsi.gov.uk**

If you would like the questions sent to you in Word format so that you can type in answers and email the document to HMRC please email Liz Bridge at **Liz@thetaxbridge.com**. Just ignore any question you cannot answer and leave it blank. If you send in a response please email Liz a copy to help compose the JTC response.

It may be possible when all taxpayers have their own online account with HMRC under 'Making Tax Digital', that employees could make online claims themselves and cut out the middlemen. They would use form P87. This would be a better solution than paying agents to do something that is so easily done.

See a summary of the consultation questions overleaf. ■

Call for evidence: employee expenses

Summary of consultation questions

How expenses affect employers:

1. What expenses do employers - you - pay for or reimburse?

- Does this vary between employees (e.g. employees on different salaries or contracts)?
- Are there different practices in different sectors?
- Please set out your expense policy if applicable.

2. How do employers set expense policies? For example, is the type and level of expenses that will be reimbursed set out in contracts, through informal arrangements or on a case by case basis?

- What are the main factors employers consider when deciding whether to reimburse an expense?
- If employees are incurring expenses that would be eligible for tax relief, why might the employer not reimburse the expense or not reimburse it in full?
- What do employers who don't reimburse tell their employees about claiming tax relief?

3. Do employers pay for employee expenses with cash allowances rather than reimbursing specific expenses?

- If so, what factors do employers consider when offering a cash allowance including how much they decide to give?
- Do employees receiving a cash allowance claim for relief on expenses?

Employees' expectations of how their employer will treat expenses:

4. What work expenses do employees normally incur? Please include any data you have on which expenses employees claim for reimbursement from their employer and how frequently employees do this.

5. Do employees expect their employers to reimburse the expenses?

- What factors does this depend on, for example, does the size of the organisation or sector influence employees' expectations?
- Do employees influence their employer's expense policy and does whether an employer reimburses or not impact the retention and recruitment of employees?

6. What evidence are employees expected to provide to their employers of their expenses?

7. Do employers know of employees who incur expenses which are not reimbursed and which would qualify for tax relief from HMRC?

- If so, why are these expenses not reimbursed and do employers know if employees are claiming tax relief from HMRC?

Changes in expense practices

8. Has the type and amount of expenses employees incur changed in the last 5 – 10 years and, if so, how and why?

- Does this vary by sector or the type of expense?

Reflecting modern working practices

10. Do you think the scope of the current tax relief for employee expenses reflects the expenses employees have today?

- Are there any types of expenses that are currently eligible for relief where that no longer seems appropriate, and why?
- Are there any expenses which don't fall within the current exemption which you think should and why?

11. Do HMRC's rules on expenses guide employers' expense policies? For example, do some employers only reimburse expenses which qualify for tax relief?

How employees claim the tax relief

12. Do employees know the rules for expenses and how to claim for expenses which are not reimbursed?

- How do employees find this information?

13. Do employees usually claim directly or indirectly from HMRC?

- Why do employees claim in different ways and does this vary by the type of expenses?
- Do employees use agents to claim on their behalf? If so, why do employees do this? How much are they claiming for and how much does it cost to use an agent? Please provide data if possible.
- Do you think the use of agents has become more widespread? If yes, why do you think this is the case? Please provide data if possible.
- Do employers ever claim a tax relief for expenses which aren't reimbursed from HMRC on their employee's behalf? If so, why?

Call for evidence: employee expenses

Summary of consultation questions (continued)

How employees claim the tax relief (continued)

14. Are flat rate expense allowances still appropriate?

- If flat rate expense allowances were not available, would employers reimburse these expenses?

15. Do you have any other suggestions for how the tax rules could be made clearer or their administration could be simplified for employers and employees?

- How could HMRC make it easier for employees to claim the tax relief directly and do employees know that making a claim directly from HMRC is a free service?

The future of employee expenses

16. How do you expect expense practices to change in future?

- Do respondents think there will be a wider range of employee expenses?
- Will the type of expenses employees pay, and claim for, change?
- What factors will influence employers' decisions whether to reimburse or not in future? Will employers be less inclined to reimburse certain expenses?
- What are the contributing factors to these changes?

17. Are there areas of the tax treatment for expenses that the government should explore further? ■

If you have a query regarding any of the items featured in this issue of newslines please contact Liz Bridge.

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