

# ACCOUNTABILITY

THE NEWSLETTER OF FINLAYSONS CHARTERED ACCOUNTANTS  
AUTUMN 2018



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### MAKING TAX DIGITAL FOR VAT: AN UPDATE ON DIGITAL LINKS

Making Tax Digital for VAT (MTD for VAT) is set to come into effect from 1 April 2019 for businesses which have a taxable turnover above the VAT registration threshold (currently £85,000). In VAT Notice 700/22, published on 13 July 2018, HMRC outlined further details and confirmed its intention to give some respite to taxpayers who may struggle with the digital requirements.

Eventually, all businesses will be required to keep their records in a digital format and to have digital links between the software programs they use. However, in the first year of mandation, businesses will not be required to have digital links in place between MTD-compatible software programs.

Firms will, nevertheless, need to file VAT returns digitally using HMRC's Application Programming Interface (API) platform.

#### What are digital links?

VAT Notice 700/22 states that a digital link is 'an electronic or digital transfer or exchange of data between software programs, products or applications'. Under MTD for VAT, taxpayers are permitted to use more than one piece of software, as long as the programs are digitally linked.

The VAT notice gives some examples of digital links. HMRC will accept digital links as:

- linked cells in spreadsheets
- emailing a spreadsheet with digital records to an agent so that they can import the data into software in order to carry out a calculation (such as for partial exemption)
- transferring digital records to a portable device, such as a USB stick, to give to an agent to import into their software
- XML and CSV import and export, and the download and upload of files
- automated data transfer
- API transfer.

HMRC is keen to emphasise that this list is not exhaustive. The Notice also states that 'the use of cut and paste does not constitute a digital link'. However, in the first year of mandation, HMRC will 'accept the use of cut and paste as being a link' for the relevant VAT periods. In time, however, taxpayers will need to ensure that digital links are available between the software programs they use.

***It is vital to ensure that you are prepared for the forthcoming introduction of MTD for VAT. We will be keeping you up-to-date with the latest information as it becomes available.***

#### Filing VAT returns

VAT returns must be filed digitally through API-enabled software, and not through HMRC's current portal.

Businesses with up-to-date digital records will find that their chosen software can collate and prepare VAT returns with ease; firms will then be able to declare that the information is correct and submit the return to HMRC.

HMRC will not be providing software to enable taxpayers to file their VAT returns. It has, however, compiled a list of MTD-compatible software providers. The list can be found at <https://www.gov.uk/government/publications/software-suppliers-supporting-making-tax-digital-for-vat/software-suppliers-supporting-making-tax-digital-for-vat> and will be updated as more software providers develop MTD-compatible software programs.

#### Next steps

With MTD for VAT set to take effect in April next year, VAT-registered businesses will need to ensure that they are digitally compliant. If you do not already use compatible software, this may be the first thing you will need to address and begin making use of. We have compiled a matrix of the main available software which is enclosed with this newsletter.

Our staff are trained in the products and will be able to advise you on the transition from your current bookkeeping system to the making tax digital platform, whatever product you decide to use.

If you wish to start moving forward now, or plan to do so in the next few months, please contact us for clarification on any queries of the issues involved.

## SPOTLIGHT ON INHERITANCE TAX

Recent reports have suggested that the UK's current inheritance tax (IHT) system is 'unnecessarily complicated', with one business group going so far as to suggest abolishing the tax altogether. Here, we provide an overview of the IHT system, outline some of the recent suggestions, and highlight ways in which you can help to minimise your liability to the tax.

IHT is the tax payable on a deceased individual's estate: in 2018/19, IHT is payable where a person's wealth is in excess of £325,000 - otherwise known as the 'nil-rate band'.

IHT is currently charged at 40% on the proportion of the individual's estate that exceeds the nil-rate band. Both the value of chargeable assets held at death and the value of chargeable lifetime gifts made within seven years of death are included within the estate.



### The Residence Nil-Rate Band (RNRB)

On 6 April 2017, the RNRB came into effect, permitting some individuals to escape the IHT net.

The RNRB applies where a residence is passed on death to a direct descendant, such as a child or a grandchild. For 2018/19, the RNRB is set at £125,000 and is set to rise annually thereafter, reaching £175,000 in 2020/21.

The RNRB is in addition to an individual's nil-rate band and can only be used in regard to one residential property which has been, at some time, a residence of the deceased. The RNRB is tapered at a withdrawal rate of £1 for every £2 for estates with a net value of more than £2 million.

### Making the most of IHT reliefs

Planning to minimise your liability to IHT is crucial. Here, we explore some of the key areas to consider.

Individuals may wish to make IHT-exempt transfers between themselves and their spouse. Such transfers are generally exempt from IHT, no matter whether they are made during a person's lifetime or on death. Both the nil-rate band and the RNRB may be transferred between spouses and civil partners.

Making lifetime gifts can also help to reduce the IHT liability on an individual's estate. Provided that the person survives the gift by seven years and no longer benefits from it themselves, the gift will escape IHT.

A 'taper relief' may also apply where lifetime gifts are made between three and seven years before death. However, this relief applies to the tax on the gift, as opposed to the gift itself.

IHT reliefs on agricultural and business property also exist, which can help to take such property outside of the IHT net.

### Recent developments

In a recently published review, the Association of Accounting Technicians (AAT) stated that IHT is 'unnecessarily complicated' and 'widely misunderstood'. The AAT called for several IHT exemptions to be abolished, including gifts on marriage and gifts to political parties, arguing that the general public are 'largely unaware' of these exemptions.

Meanwhile, in a separate report, think tank the Resolution Foundation suggested that IHT should be abolished in its entirety, and replaced with a new 'Lifetime Receipts Tax'. This would be set at a considerably lower rate than the current 40% standard rate of IHT and would permit each individual to have a lifetime allowance of £125,000, after which tax would be payable at a rate of 20%, up to £500,000.



*As your accountants, we can help you to minimise the IHT due on your estate. The sooner you act, the better - please get in touch with us for further advice and support.*

## PAYE: BEWARE THE LATE PAYMENT PENALTIES

Under the Pay as You Earn (PAYE) system, it is the duty of the taxpayer to make sure that any payments to HMRC are made on time. HMRC will not send reminder letters when a payment becomes due, so it's important to make sure you keep on top of the deadlines.

Here we consider the penalties for non-payment of any tax due, and the key features of the PAYE system.

In the past, late payment charges were applied at the end of the tax year. Nowadays, however, interest on late PAYE payments is charged at a daily rate of 2.75% on the amounts outstanding.

HMRC will charge interest on all unpaid PAYE tax, Class 1 national insurance contributions (NICs) and student loan deductions. Employers may also be charged a penalty if they don't pay what they owe in full.

PAYE payments are due by the 22nd of the month following the end of the tax month to which the payment relates. So, payments for January must be cleared with HMRC by 22 February. Cheque payments must be made by the 19th of the relevant month.



## Abiding by the Real Time Information (RTI) rules



Under the RTI regulations, businesses are required to make regular PAYE submissions for each pay period during the year. These submissions should detail payments and deductions made from employees each time they are paid. Employers must make two main submissions to HMRC: a Full Payment Submission and an Employer Payment Summary.

On or before the date that their employees are paid, employers must submit a Full Payment Submission to HMRC. Meanwhile, the Employer Payment Summary must be supplied to HMRC every month, and must outline instances where no employees were paid in the tax month, where the employer has received funding in advance to cover statutory payments and where such payments are recoverable. The Employer Payment Summary must also cover cases where Construction Industry Scheme (CIS) deductions are suffered, which could be offset.

## Running payroll

Running payroll accurately is crucial. Payroll software, other than HMRC's Basic PAYE Tools program, can be used in the management of an employer's payroll requirements.

However, it is crucial to understand how the PAYE system works, and to not rely too heavily on specialist technology. Please talk to us before making any decisions.



## Be aware of compliance visits

HMRC inspection teams can carry out a visit at any time, so it is vital that employers are prepared. HMRC will check to ensure that the employer is operating PAYE properly - if it discovers any under-deductions, employers will be liable. We can help you to prepare for a compliance visit - please contact us for more information.

*As your accountants, we can help to relieve the PAYE burden and avoid overdue payments with our comprehensive payroll service. We can effectively administer PAYE, generate payslips, either online or printed, and provide advice on selecting the most appropriate software for your needs. For more information, please contact us.*

## CHECK YOUR PENSION SAVINGS ANNUAL ALLOWANCE

HMRC have updated their guidance on the rules for carrying forward the unused pension savings annual allowance, together with a calculator on their website.

For most taxpayers the maximum amount of pension savings that qualifies for tax relief each tax year is £40,000. It is possible to increase this amount by utilising unused relief brought forward from the previous 3 tax years, provided the individual was a member of a pension scheme that year.

The brought forward relief from the earliest year is utilised before later years. Thus for the current tax year 2018/19 the unused relief from 2015/16 may be utilised in addition to the current year relief, followed by 2016/17 and then 2017/18.

### 2015/16 Pension Annual Allowance Lapses On 5 April 2019

To utilize the 2015/16 unused relief any additional pension savings would need to be paid to the pension fund by 5 April 2019, otherwise the relief from 2015/16 will lapse.

Note however that for some taxpayers the method of calculating unused relief for 2015/16 is extremely complicated as the government changed the pension rules part way through the year on 8 July 2015. The amount of pension allowance will depend on the pension input period of your scheme and we can assist you in calculating the 2015/16 relief if you have not already had full relief already.

### Tapered Pension Tax Relief For Those With High Income

For most taxpayers the maximum pension input annual allowance is currently £40,000.

However, from 2016/17 those taxpayers with 'adjusted income' over £150,000 and 'threshold income' over £110,000 receive a tapered annual allowance. For those persons affected the allowance tapers by £1 for every £2 that their adjusted income exceeds £150,000 down to a minimum annual allowance of £10,000.

The calculations of 'adjusted income' and 'threshold income' are complicated and we can assist if you believe that this restriction applies. There are ways in which these figures can be reduced so as to minimize the effect of the restriction.



### And You May Have To Pay Tax If Your Pension Savings Are Too High!

If your pension savings are more than your annual allowance for the tax year, and you do not have unused annual allowances from the 3 previous tax years to cover the difference, you'll have to pay tax on the excess.

You'll get a statement from your pension provider telling you if you go above the annual allowance. If you're in more than one pension scheme, ask each pension provider for statements. There is a calculator on the HMRC website but we can of course help you check that you have not exceeded the limits.

As you can see from the above, despite the "simplification" of pensions by George Osborne in 2015, the system is still extremely complicated and we are expecting yet further reforms in future Budgets. Nevertheless, saving in a pension is still very tax-efficient as for a higher rate taxpayer the net cost of saving £10,000 in a pension is currently £6,000.

This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases, so please contact us for personal advice on your own affairs.

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If anyone would prefer to receive our newsletter by email then please let us know so we can update our records.

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