



TOPICAL TAX ISSUES

The Digital Revolution Whilst it is most certainly not along the themes of George Orwell and his classic novel 'Nineteen Eighty-Four' George Osborne announced in his March 2015 Budget that HM Revenue & Customs (HMRC) are embracing the digital age.

"This Government is bringing the digital revolution to Whitehall – ensuring that the services it provides are similarly transformed. The tax system is no exception. During this Parliament, HMRC will make fundamental changes to the way the tax system works - transforming tax administration so it is more effective, more efficient and easier for taxpayers." David Gauke MP Financial Secretary to the Treasury

So what does this mean to us and our clients?

The biggest change is how all tax payers interact with HMRC. Currently there are approximately 10.2m self-assessment returns filed annually, as part of this process it is envisaged that there will no longer be a need to file a self-assessment tax return. Over time these will be replaced with accounting software uploading information on a quarterly basis to HMRC. In summary the key changes are:

- All business will eventually be required to maintain their records digitally, HMRC in their myth buster have indicated for those who aren't already keeping records digitally, there will be free software and clear, simple advice on how it can be used. **There is no question of forcing those who cannot go digital to so, instead they can nominate someone else (such as their accountant) to maintain and update on their behalf.**
- Real time updating of information and records held by HMRC, including bank and building society interest, pensions and salary information. Taxpayers should never have to tell HMRC information it already knows
- Digital tax accounts for all taxpayers. The digital accounts will present individual taxpayers with a personalised picture of their tax affairs, along with prompts, advice and support through webchat and secure messaging.

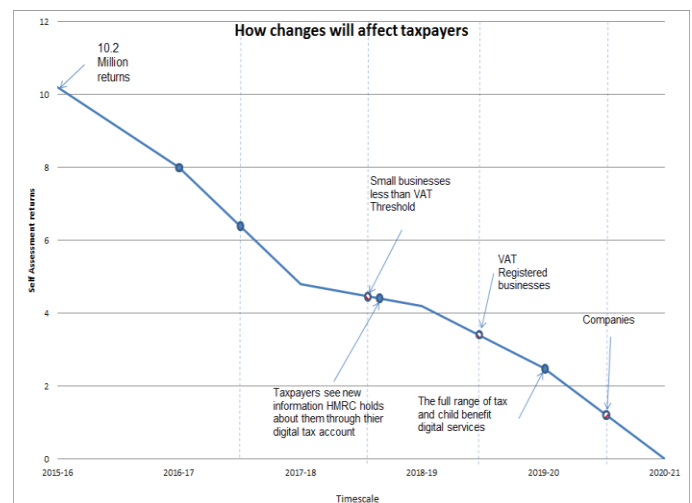
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Whether you are a client or not, if we can provide further help or advice concerning any of the matters covered here, please do not hesitate to telephone us on (01603) 720424 or email info@hornbeam-accountancy.co.uk

Disclaimer Most of the information contained in this Hornbeam Highlights is of necessity greatly oversimplified. We are trying to bring to your attention tax planning and business management opportunities. However, you should not take action based upon this leaflet without obtaining specific professional advice.

This is an ambitious five year plan, notwithstanding the complex IT requirements, some of which has already been implemented but broadly the time scales are

- Now – all of the UK's 5 million small businesses and every individual taxpayer will have access to their own digital tax account, seeing information HMRC holds about them.
- 6 April 2018 – Small businesses less than the VAT threshold (including landlord businesses) will move to quarterly digital accounting. Updating HMRC for income tax and national insurance obligations through their accounting software. The first filing is expected to be around July 2018.
- 6 April 2019 - non incorporated businesses above the VAT threshold (they are already reporting VAT)
- 6 April 2020 - Companies start updating HMRC quarterly for Corporation Tax Obligations.



The government has already announced, however, that these measures will not apply to individuals in employment or pensioners, unless they have secondary incomes of more than £10,000 per year from self-employment or property.

HMRC will also analyse the information it holds to identify those looking to bend or break the rules. They will be spotted earlier, and tackled earlier, to

avoid non-compliance and reduce the need for expensive compliance interventions later on.

As part of this process HMRC will be joining up its internal systems which will eventually result from an accountability point of view the four taxes of Income, Corporation, PAYE and VAT becoming one. Which, with certain conditions, will allow taxes to be offset and from the tax payers point of view a single payment or refund.

The government announced at Autumn Statement 2015 that Capital Gains Tax would be brought more closely into line with income tax — paid within 30 days of completion of any disposal of residential property. This requirement will be introduced from April 2019, with further options to align payment arrangements covered in the government's consultation on payment.

Hornbeam are fully committed to helping you with these changes, working with you to implement, maintain and improve digital record keeping.

This is a complex implementation process involving testing and consultation, we will provide updates as further information arises.

Other Matters

Benefits in kind – there are two changes of note here:

- From 6 April 2016 the FA 2015 s13 has removed the £8,500 threshold that separates lower and higher paid employees for the purposes of benefits in kind and reporting on P11d's. As a consequence some employers and employees may see an increase in tax and NIC liabilities e.g. lower paid employees who might have benefited from a late night taxi home provided by the employer.

However round sum allowance dispensations may need to be reapplied for.

- Also from this date existing P11d dispensations became obsolete. For business tax expenses reimbursed on an actual basis, which are tax deductible, these are now under tax law treated as exempt.
- **Overdrawn Director's Account**
The tax charge on loans to participators (overdrawn director's accounts) has increased from 25% to 32.5% from 6th April 2016.
- **Pensions annual allowance**
From 6 April 2016 there are restrictions on the annual allowance of £40,000 for those earning over £150,000. This relief will scale down to the

minimum of £10,000 for those earning £210,000 and over. The relief is reduced by £1 for every £2 over £150,000. The lifetime allowance has been further reduced to £1m.

- **Personal Savings Allowance (PSA)**

From 6 April 2016 the PSA provides for an exemption (0% tax band) of £1,000 for basic rate tax payers and £500 for higher rate tax payers in respect of interest received on an individual's savings. Also from this date tax is no longer withheld at source by certain bank and building society accounts.

- **Inheritance Tax**

The amount collected in inheritance tax has risen from a level of £2.4billion in 2009-10 to almost twice that in 2015-16 at £4.6m. Currently individuals are taxed at a rate of 40% on all their assets above a threshold of £325,000 (couples have two allowances). This will be frozen at this level until 2020-21.

In addition in April 2017 a new additional nil rate band **family home allowance** will begin to be phased in starting at £100,000 and increasing by £25,000 each year thereafter up to a maximum of £175,000 in 2020-21. This allowance is available to individuals (couples have two allowances) and will allow people to pass on an extra amount tax free if they are leaving a family home to "direct descendants". Direct descendants includes children, stepchildren or grandchildren. By 2020-21 the combined nil rate allowances will be £500,000, thereafter they are expected to rise in line with CPI.

If the net value of the estate (after deducting any liabilities but before reliefs and exemptions) is above £2 million, the additional nil-rate band will be tapered away by £1 for every £2 that the net value exceeds that amount.

The measure will take effect for relevant transfers on death on or after 6 April 2017. It will apply to reduce the tax payable by an estate on death; it will not apply to reduce the tax payable on lifetime transfers that are chargeable as a result of death.

If you require further information or assistance please contact your usual Hornbeam advisor or myself.

Phil Needham BA FCA

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