Money Matters

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A makeover for capital gains tax?

If you have capital gains that you have not yet realised, you may wish to make disposals by 5 April, following the publication of a report into the simplification of capital gains tax (CGT).

The Office of Tax Simplification (OTS) report suggests aligning CGT rates with income tax rates, removing some reliefs for owner-managed businesses and ending re-basing on death.

The government needs to restore the country's finances, and may well implement some of the proposals because CGT is considered an easy target.

CGT rates

The rates of CGT paid by higher and additional rate taxpayers at 10%, 20% or 28% are considerably lower than the equivalent rates of income tax. The report looks at whether rates should be more closely aligned, although this is not as straightforward as it might first appear. A gain can arise simply because of inflation, so there would need to be some form of relief to remove the inflationary element.

Annual exempt amount (AEA)

The OTS report considered that the AEA of £12,300 may be too high, and proposed cutting it to £5,000 or even £1,000. Such a reduction would double or triple the number of taxpayers who have to pay CGT.

Interaction with IHT

The free capital gains uplift on death acts as a disincentive to making lifetime disposals according to the OTS. The report therefore suggests that this uplift on death should be

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scrapped for assets that qualify for an IHT relief or exemption.

Business reliefs

The proposed restriction of business asset disposal relief and abolition of investors' relief will be unwelcome to most business owners. Business asset disposal relief, under which qualifying gains of up to £1 million are taxed at 10%, could become more focused on retirement, meaning a much longer holding period as well as an age qualification.

Reactions to the report indicate little appetite for a major overhaul of CGT, but it would hardly be a shock to see an increase in CGT rates in the near future. Individual investors and trustees who hold property or other investments on which there are large potential gains should consider whether to sell before higher rates come in or hold on for the longer term.

> *Business asset disposal relief could become more focused on retirement, meaning a much longer holding period as well as an age qualification.*

Off-payroll changes finally launch in April

Changes to the off-payroll working rules that were postponed from April 2020 because of Covid-19 will take effect from April 2021, the government has confirmed.

Off-payroll rules affect workers who provide services through an intermediary – usually their own personal service company. Most of these workers would be taxed as employees if they worked directly for the end-user of their services. Where they use a personal service company or other intermediary, income tax and employer's and employee's national insurance contributions must be paid on an amount deemed to be the worker's employment income.

From 6 April 2021, the duty to determine a worker's employment status will be extended to medium and large private sector organisations (as defined by the small companies' regime). Until then the responsibility lies with the worker's personal service company, or other intermediary.

HMRC has addressed concerns that anti-avoidance measures added to the new conditions for a company to qualify as an intermediary would also hit umbrella companies, employers seconding employees and some agencies providing workers. HMRC said this was unintended and will be corrected.

Businesses affected by the new rules need to prepare. Steps you should take include the following:

- Identify which workers are engaged via an intermediary and have contracts that go beyond 5 April. These workers will have to be assessed under the new off-payroll rules.
- Where an initial assessment indicates that any workers will fall within the off-payroll rules, consider whether any changes in working practices or other factors could take them outside the rules. However any changes must be genuine, otherwise HMRC could dismiss them as a sham.
- Determine the risks and costs. Some contractors may not be prepared to continue working under the off-payroll rules, and this might jeopardise a project. Key workers might have to be paid more to stay on.

If you think you may be affected by the changing rules, do get in touch.

> *"From 6 April 2021 the duty to determine a worker's employment status will be extended to medium and large private sector organisations.*

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Brexit – VAT postponed accounting

The end of the Brexit transitional period on 31 December 2020 means a change in the VAT accounting rules for importers. There is updated guidance for businesses that complete customs declarations about the grants available for funding recruitment, training and IT improvements.

The new VAT trading rules apply from 1 January 2021, creating an added complication for many businesses still struggling under Covid-19 restrictions.

Accounting for import VAT on VAT returns

The new rules apply for goods imported from anywhere in the world, not just from the EU. Under a system of postponed accounting, VAT registered businesses now declare and recover import VAT on the same VAT return. Postponed accounting is similar to the reverse charge procedure that previously applied for goods acquired from the EU.

For non-EU imports, postponed accounting replaces the old basis of paying import VAT upfront and recovering it later, simplifying the procedure and creating a cash flow advantage for traders who import non-EU goods. The normal input VAT rules apply, so, for example, there is no recovery, or only partial recovery, for imported goods that relate to VAT-exempt supplies.

Postponed accounting cannot be used if:

- imported goods are not for business use, or
- a business's VAT registration number is not included on the customs declaration.

There has been no change to the VAT treatment of goods moving between Northern Ireland and the EU. For businesses in Northern Ireland, postponed accounting only applies for imports from outside the UK and the EU.

Businesses can use postponed accounting when they submit their declaration for removing goods into free circulation from various special procedures. A different set of quite complicated rules applies for imported goods with a value of £135 or less.

Completing VAT returns

Postponed import VAT is normally accounted for on the VAT return that covers the date on which goods are imported. The relevant information should be available from import VAT statements which are available online in the first half of each month. The statement shows the total import VAT postponed in the previous month. VAT returns must include:

Box	Description
Box 1	VAT due on imports accounted for through postponed VAT accounting
Box 4	VAT reclaimed on imports accounted for through postponed VAT accounting
Box 7	The total value of all imports of goods (excluding any VAT)

Customs grant scheme

The customs grant scheme is intended to help businesses prepare for their new customs arrangements from 1 January 2021.

Not completing customs declaration: Exporters and importers can apply for a training grant of up to £1,000 per organisation if they have been newly required to declare their goods to customs as a result of the UK leaving the EU, but do not complete their own declarations.

Completing customs declaration: There are more substantial grants for exporters and importers who will now have to complete their own declarations. For example, there are grants of £15,000 towards the salary and recruitments costs of a new recruit, 100% of relevant IT expenditure, and 100% of the cost of externally provided training (subject to a limit of £1,500 per employee).The grants can cover the salary costs of an employee who is redeployed from another part of the business to undertake customs declarations. Please let us know if you need any help.

News in Brief...

Job retention bonus

The £1,000 job retention bonus will not be paid in February 2021, because the Coronavirus Job Retention Scheme has been extended. This will be a blow for employers who have retained staff, although there should be a replacement scheme at some point.

Apprenticeship incentive scheme extended

The £2,000 incentive for hiring an apprentice aged 16 to 24 (£1,500 if 25 or over) has been extended by two months until 31 March 2021. This is on top of the existing £1,000 incentive for taking on an apprentice.

HMRC receives Airbnb data

A warning for those who host property on Airbnb. The company is sharing details of your Airbnb earnings for 2017/18 and 2018/19 with HMRC, so full disclosure of property income is essential both for prior years as well as going forward.

Ups and downs of capital allowances

The good news is that the annual investment allowance (AIA) £1 million limit, originally due to end on 31 December 2020, will now run until 31 December 2021. However, a cap on research and development (R&D) relief, aimed at preventing fraudulent claims, will come in on 1 April 2021, after being postponed from April 2020.

Annual investment allowance

The AIA limit was due to revert to £200,000 on 1 January 2021, but the £1 million temporary limit will now run for another year. The government wants to bolster manufacturing activity, although the short notice will be unhelpful for any business that has brought forward investment in anticipation of a reduced limit. In contrast, businesses that have not been able to go ahead with investment plans because of Covid-19 or Brexit constraints will benefit.

Claiming AIA means that capital expenditure is effectively treated as a deductible expense and this could be particularly beneficial where expenditure would otherwise only qualify for the 6% writing-down allowance. The AIA cannot be claimed for motor cars, but lorries, trucks and most vans qualify.

R&D relief

A loss-making company can receive a cashflow benefit by surrendering its loss against the payable 14.5% R&D tax credit available to small or medium-sized enterprises. From 1 April 2021, this payable tax credit is to be capped at:

- £20,000 (equivalent to approximately £60,000 of R&D expenditure), plus
- 300% of the company's total PAYE and NICs liability for the period (this is for all the company's employees, not just R&D staff).

Claims for payable credits of under £20,000 are exempt from the new cap, and there is a further exemption where a business is involved in the active management of intellectual property. Although most companies should not be affected by the cap, there are likely to be increased professional and compliance costs.

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New VAT deferral scheme to extend payments

VAT payments become due on 31 March 2021 where they were deferred between 20 March and 30 June 2020 because of the impact of Covid-19. However, a new VAT payment deferral scheme is to be launched early this year.

Instead of paying the full amount by the end of March 2021, businesses will be able to make between two and 11 smaller monthly instalments, interest-free. All instalments will have to be paid by the end of March 2022.

Businesses must be up to date with their VAT returns in order to use this scheme. They must first submit any outstanding returns and correct any errors on returns as soon as possible – so that the amount of the deferred balance is accurate and up to date.

Credit: Dean Drobot /Shutterstock.com

Opt in by March 2021

Businesses will have to opt in before the end of March 2021 by a process that will be available in early 2021. Businesses must opt in themselves – their agents cannot do this for them. They will also need their own Government Gateway account.

The first instalment will have to be paid before the end of March 2021 and payments must be made by direct debit. Businesses that still cannot pay their deferred VAT – even with the new scheme – should contact HMRC as soon as possible if they want to avoid late payment penalties.

Boost for hospitality and tourism

When the Chancellor, Rishi Sunak, announced the new scheme he disclosed that nearly half a million businesses had deferred over £30 billion of VAT in 2020. He also extended the 15% VAT rate cut for the hospitality and tourism sectors until 31 March 2021. The VAT rate for these sectors had been expected to increase from 5% back to 20% on 13 January.

January deadline

Self-employed individuals who deferred their July 2020 income tax payment will have to pay the outstanding sum by 31 January 2021.

> *“Businesses that cannot pay their deferred VAT - even with the new scheme - should contact HMRC as soon as possible to avoid late payment penalties.*

Potential tax changes ahead?

After an expensive year for the Treasury, thoughts will be turning towards how to pay for the costs of Covid and the support packages put in place in 2020. There is no doubt that No 11 will need to increase their revenue – the question is how will they choose to do this?

A simple way would be to increase income tax. This would be easy to implement but potentially politically sensitive. An additional 1% on current income tax rates would yield an extra £4.7bn according to the government.

Another approach would be to tax income and capital gains at the same rate; there have long been suggestions that capital gains should be taxed at the same rate as income and it is possible both are aligned in the next Budget due on 3rd March. CGT is currently at a historic low and increasing it to the same levels as income tax appears to be a simple solution.

Another potential change is the reduction or removal of the annual exemption; the amount of gains that are tax free every year. This is currently £12,300 per annum and could easily be reduced.

In 2019, the Office of Tax simplification reported on possible reform to the Inheritance Tax (IHT) regime. This report suggested that the CGT uplift on death should be removed and replaced with a no gain, no loss approach where an IHT relief or exemption applies.

Other suggestions included increasing the trading threshold for Business Property Relief (BPR) to apply - currently relief applies if a company's activities are 51% or more trading and this could be increased to 80%.

Moving into the future it is widely expected that BPR and Agricultural Property Relief (APR) will undergo significant reform.

In situations where individuals were already considering succession planning, particularly lifetime gifting (outright or into trust), accelerating such planning could be considered.

Future changes to IHT and/or CGT could make such gifting more costly from a tax perspective and coupled with potentially depressed asset values, now may be the time to contact us to discuss your options.

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