

# Money Matters

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## Employment in the spotlight

*Changes for employers and employees*

### Inside...

#### **Off-payroll working**

IR35 decisions shift in contractors' favour

#### **Expenses? Simples!**

How simplified expenses work for small businesses

#### **MTD complications**

Is your MTD software up to the task?



# When off-payroll really is off-payroll

*HMRC recently lost two tax tribunal appeals against rulings that individuals providing their services through limited companies should be taxed as employees under the intermediaries rules, commonly known as IR35. Both cases concern television presenters but have far wider significance.*

Lorraine Kelly used a limited company for her engagements with ITV Breakfast. HMRC claimed she was working as if she were an ITV employee and so owed tax and national insurance contributions totalling over £1.2 million.

However, the tribunal ruled that control was the key factor and ITV Breakfast had not controlled Ms Kelly as if she were an employee. She had considerable freedom over her performance, presenting herself as 'a friendly, chatty and fun personality', rather than appearing merely as herself. She did not receive pension benefits, sick pay or holiday pay, and worked for several other media outlets.

Kaye Adams also succeeded in her appeal against an HMRC challenge over her engagement with the BBC as presenter of The Kaye Adams Programme. A crucial point in her favour was her numerous other engagements, which indicated that she was clearly in business on her own account.

Although Ms Adams had to provide her services personally and mutuality of obligation was present, other terms of the contract were



consistent with self employment. In reality Ms Adams was largely in control of her work and, looking at the overall picture, the relationship between Ms Adams and the BBC was not one of employment.

HMRC recommends that businesses use its 'Check Employment Status for Tax' (CEST) tool to determine whether the off-payroll working rules apply to an engagement. The Chartered Institute of Taxation (CIOT) has recently criticised the CEST tool, saying that it makes inaccurate status determinations because it fails to consider essential employment case law before arriving at a decision. HMRC insists that CEST is reliable but its recent failures at the tax tribunal cast doubt on this claim.

While employers should still use CEST, they should also supplement the result with good professional advice.

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# Could you be using simplified expenses?

*You can use the 'simplified expenses' rules when calculating allowable business expenses. They are associated with the cash basis for accounting but can be used independently by sole traders and partnerships, though not limited companies.*

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## Business costs for vehicles

All you need to do is keep a record of your business miles. You calculate the deduction for business mileage in your car or van at 45p a mile for the first 10,000 miles, and 25p a mile thereafter. For a motorbike, the rate is 24p a mile.

You can ignore the actual costs of buying and running your vehicle in your expenses record. You can pick and choose which vehicles you want to use for the flat rates, but once you have allocated the flat rates, you must continue to apply them for as long as you use that vehicle in your business.

If you have already claimed capital allowances, then you cannot use the flat rates for that vehicle. You can still claim for any other travel expenses (such as train journeys and parking) on top of your vehicle expenses. Keep receipts for fuel purchases if you want to claim back VAT on the fuel element included in the rates.

## Working from home

The amount of allowable expenses for working from home can be based on the number of hours you work there each month. Rates are:

Hours worked at home per month	Flat rate per month
25 to 50	£10
51 to 100	£18
101 or more	£26

The flat rate doesn't include telephone or internet expenses, so you can claim these by working out the business proportion of the bills.

You should always check whether the simplified expenses rules are the right way to go - HMRC provides a basic online tool at [www.gov.uk/simplified-expenses-checker](http://www.gov.uk/simplified-expenses-checker) and of course we're here to help.



# Employment in the spotlight

*Employment regulations have been overhauled in a variety of ways over the past year, with implications for most businesses and employees.*

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**F**rom April 2019 the minimum contribution to auto-enrolment pension schemes increased to 8% of qualifying employee earnings, of which the employer must pay at least 3%. There are no plans for rate increases but employers and employees may choose to pay more. Alternatively employees may opt out and make other provision.

The right to receive a payslip was also extended to anyone recognised as a 'worker' from April 2019. A worker is broadly anyone who has a contract or arrangement to carry out work or provides services for a reward. Workers have certain employment rights, but not to the same extent as employees.

As well as showing earnings and all deductions, a payslip must now include the number of hours the employee or worker worked, if their pay varies according to the time they worked. Employers also have to keep 'adequate records' to show whether they are complying with the time limits on weekly working and night working. A recent decision of the European Court of Justice could result in a tightening of UK law on recording working hours, although Brexit timing now makes this unlikely.

## **EU nationals**

Another consequence of Brexit is that EU nationals will lose their existing right to reside in the UK. Currently most citizens of the EU,





as well as Iceland, Liechtenstein, Norway and Switzerland, do not need any permit to remain in the UK. Employers must ensure that employees who are not UK or Irish citizens do have the right to work in the UK if they will still be in post after June 2021.

Most EU nationals will have to obtain settled status to continue living and working here from 2021. This will normally be granted to people who have been living in the UK for five years. Those with less than five years will receive pre-settled status. Applications to the EU Settlement Scheme are already open and the deadline for applying is 30 June 2021 if the UK leaves with a deal, and 31 December 2020 if there is no deal.

### Disclosures

A consultation into the use of confidentiality clauses in the workplace has recently closed. Also known as non-disclosure agreements or NDAs, these provisions have long been used to prohibit departing employees from disclosing information. More recently, however, they have

also been used to prevent victims of workplace harassment or discrimination from speaking out. The use of NDAs may be restricted in future.

Listed companies with more than 250 employees will be required to publish their executive pay gap – the difference between the amount paid to their CEO and average employee pay. Although the first reports will not be due until 2020, companies should ensure now that they are collecting the necessary data throughout the year. Employers with at least 250 employees in both the public and private sectors have been reporting their gender pay gap to government since 2017 and publishing the information on their websites.

Employers who fail to comply with any of these requirements could face heavy penalties and costs, so it is important to keep up to date.

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# Don't be tripped up by MTD

*If you have a VAT-registered business, you should now be getting used to submitting VAT returns digitally using MTD-compatible software, or bridging software to connect non-compatible software, such as spreadsheets, to HMRC systems.*

Credit: iStock/Sitthiphong

Contrary to some of the advertising for accounting software, however, it is not as simple as scanning all your invoices and receipts and clicking 'go'. Software designed to prepare VAT returns for business owners might be expected to include checks and prompts whenever it encounters anything unexpected or unusual, such as expenses that look as if they might be private. But not all MTD-compatible software does this and sometimes the VAT it calculates is simply wrong.

For example, the software might not identify whether the business uses the cash basis or the invoice basis for its VAT returns unless the information has been input correctly. Calculating VAT on the wrong basis could result in duplication or omission of output tax or input tax.

## Start right

Using software does not remove your responsibility for submitting an accurate VAT return, and HMRC could charge a penalty for

inaccurate returns. The government announced in March 2019 that HMRC would exercise a 'light touch approach' to penalties in the first year of implementation, but it is too early to predict the extent reliance on MTD-compatible software will qualify as taking reasonable care.

MTD for VAT is only the first stage in a programme that should result in most individuals and businesses filing their tax details digitally. MTD was intended to be rolled out for income tax from April 2020, but this will not now go ahead and the government has not yet announced a new target date.

If you have any queries on MTD for your business, let us know.

**“** *Not all MTD-compatible software includes checks and prompts, and sometimes the VAT it calculates is simply wrong.*

# A question of property

*Landlords must be wondering if the punches are ever going to stop coming.*

**From April 2020, final period principal private residence relief (PPR) will be cut again, with letting relief also severely curtailed. This comes after last April's increase to the proportion of finance costs restricted to the basic rate, and the recent implementation of the Tenant Fees Act.**

## Principal private residence relief

If you have at some point lived in your rental property as your main residence, then a proportion of the gain arising on sale is exempt and will be based on the period you occupied the property. In addition to actual periods spent living on the premises, the final months of ownership are also exempt.

The exemption used to be the final 36 months of ownership but has now been cut to 18 months. From April 2020, there will be a further reduction to nine months. However, the final period exemption will remain 36 months for disabled people and those in long-term care homes.

## Letting relief

Letting relief provides an additional exemption where you have at some point let out a property

**“ PPR exemption used to be the final 36 months, but it is now 18 months and from April 2020 will be only 9 months.**

which has been your main residence. The exemption is a maximum of £40,000 of the gain, but cannot be more than the

amount of PPR exemption. The relief can be up to £80,000 for a jointly owned property. From April 2020, the letting exemption will only apply where the owner of the house shares occupancy with the tenant, so there will no longer be any exemption where a whole house is let.

## Other changes

There is a 75% limit of finance costs at the 20% basic rate for 2019/20, up from 50% last year.

Since 1 June, it is no longer permissible to charge tenants letting fees. Letting agents are almost certainly going to charge landlords higher set up fees and increase their management fees. Deposits are now capped at five weeks' rent for properties rented at an annual rent less than £50,000. The rules only apply in England; letting fees have already been banned in Scotland.



# Proposed changes to Inheritance Tax (IHT)

*The Office of Tax Simplification (OTS) has recently undertaken a review on Inheritance Tax (IHT) as requested by the chancellor and has given the following recommendations on how to simplify it.*

In their report the OTS made 11 recommendations which included the following;

- A reduction in the 7 year gifting rule to 5 years. At present gifts made within 7 years of death fall back into an individual's estate. It was deemed that the requirement of 7 years for executors to be going through the deceased's estate was excessive and in some instances impractical. A reduction to 5 years would mean that more gifts will escape exposure to IHT.
- Introducing a personal lifetime gift allowance. At present there is no limit or lifetime tax payable on a gift which qualifies as a potentially exempt transfer (PET).
- Reform the exemption for normal expenditure out of income or replace it with a higher personal gift allowance
- Simplifying the interaction between IHT and Capital Gains Tax (CGT). This may involve the removal of the re-basing of assets for CGT purposes upon death.
- Removal of Taper Relief for failed PET's. Taper relief is a largely misunderstood relief with only gifts above the nil rate band actually qualifying for taper in the first instance.
- Consider whether it continues to be appropriate

for the level of trading to be set at lower levels for Business Property Relief (BPR), than that for other Capital taxes such as Holdover Relief and Entrepreneur's Relief. At present for a business to qualify for BPR on death (an exemption from IHT), the business effectively needs to have a >50% trading requirement. It will be interesting to see if any amendment to this test makes BPR qualification more difficult by aligning qualification with the CGT rules.

- Review of the treatment of Furnished Holiday Lets and whether to align the IHT treatment to that of the income tax and CGT, where they are treated as a trade providing certain conditions are met. This would be interesting as at present HMRC's view is that in general, Furnished Holiday Lets do not qualify for BPR.

One area where there was no proposal for simplification was the recently introduced Residence Nil Rate Band (RNRB). Ironically, this is one of the most complicated areas of IHT and was possibly a missed opportunity to simplify the working of this relief to provide greater clarity for all.

In summary, these are only proposals, and the next step will be for them to be discussed, agreed, and then possibly in one form or another make it into legislation.

So whilst it is still early days, this does prove that the current IHT rules are being reviewed by HMRC, and we will be sure to keep you updated if and when the proposals become finalised and legislated.

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