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CHARTERED ACCOUNTANTS

NEWS UPDATE - 13 November 2023

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Handy hints ahead of self-assessment

The 31 January 2024 deadline for submitting a 2022/23 self-assessment tax return is not far off, especially for those not yet registered.

Anyone who has not previously registered for self-assessment – but needs to submit a tax return for 2022-23 – should do so as soon as possible.

- A self-assessment activation code can take a week to arrive (three weeks if overseas); and
- It can take two weeks (again, three weeks if overseas) to obtain a unique taxpayer reference, although using a personal tax account or the HMRC app can speed things up.

For anyone who has not previously submitted a tax return, the deadline for informing HMRC of the need to do so for 2022/23 has already passed. Individuals who have missed the deadline might face a fine.

First-time registration

There are a number of reasons why a taxpayer might fall into the self-assessment system for the first time. For example, anyone who has:

- Started part-time self-employment, including work in the gig economy, trading on eBay and similar websites, or earning money as an influencer (although the first £1,000 of self-employed income is exempt);
- Disposed of cryptoassets (any profits are subject to capital gains tax); or
- Rented out property for the first time, possibly through sites such as Airbnb (again, the first £1,000 of rental income is exempt).
- Become liable to the High Income Child Benefit Charge as a result of their income exceeding £50,000.

Sooner rather than later

Leaving registration to the last moment will mean there is no time to deal with any unforeseen problems. You might need to consult HMRC's self-assessment helpline, which is now available again after its summer closure.

There will also be little time before the related tax bill is due for payment, and this could be an issue if the amount payable is higher than expected.

More information about whether you need to submit a self-assessment tax return can be found from the link below:

https://www.gov.uk/check-if-you-need-tax-return

VAT registration goes online only

HMRC is moving ahead with its 'digital by default' ambition by pushing VAT registration to online only. Any business unable to use the online registration service will have to call HMRC's VAT helpline to obtain a paper registration form.

According to HMRC, more than 95% of businesses already register online, but there are some circumstances when registration by post is the only option.

HMRC recently made an almost immediate U-turn after concerns were raised when it tried to remove the option for downloading paper self-assessment tax returns. the forms continue to be available to download.

Paper-only option

Online registration is not possible where a business wants to:

- Apply for an exemption from VAT registration (where turnover has gone temporarily over the registration threshold);
- Join the agricultural flat rate scheme; or
- Register a company's divisions or business units separately for VAT.

In these circumstances, businesses must contact HMRC's VAT helpline to ask for a VAT1 form. The digitally excluded will need to do likewise.

Other registration issues

The compulsory VAT registration threshold has been frozen at £85,000 since 1 April 2017, so not surprisingly the number of new registrations has risen considerably – over 300,000 in each of 2020/21 and 2021/22. The threshold will remain unchanged until 31 March 2026.

With more smaller businesses being drawn into the VAT net, it doesn't help that HMRC closed its VAT registration helpline earlier this year. Anyone with a registration query can now end up waiting well over a month before HMRC responds.

Currently, it can take HMRC 30-40 working days (although sometimes longer) to process an online VAT registration. However, VAT must still be accounted for from the date when the obligation to register arose, so sending out invoices in the interim can be problematic.

HMRC's guide to VAT registration can be found from the link below.

https://www.gov.uk/register-for-vat

Powers of attorney move one step closer to the digital age

The administration of lasting powers of attorney (LPA) is on its way to becoming fully online..

In an ideal world, you should have an LPA (or its Scottish or Northern Ireland equivalent) sitting beside your will. The absence of either can complicate matters considerably for your family. Without a will, the distribution of your estate defaults to the laws of intestacy, which may not match your (or your family's) wishes. Similarly, if illness means that you cannot manage your own affairs, then in the absence of an appropriate LPA, the Court of Protection will be your family's first port of call to make decisions on your behalf. Going to the Court can be an expensive and slow process.

In England and Wales, the LPA process is dealt with by the Office of the Public Guardian (OPG). Over the years, technology has gradually crept into what has traditionally been a heavily paper-based system. You can now prepare an LPA for property and financial affairs and/or health and welfare matters online (https://www.lastingpowerofattorney.service.gov.uk/lpa/type). These LPAs are basic, government-drafted documents, but you may prefer to use a solicitor to include specific provisions that the standard issue version does not contain.

However your LPA is prepared, it will need to be registered before it can be used. While in theory registration can be delayed until your attorney needs to act on your behalf, in practice it is best to register your LPA as soon as it has been completed. That involves signing the document and sending the paperwork to the OPG (with a fee of £82 per LPA). The OPG says that it takes "up to 20 weeks" to register an LPA, provided there are no mistakes in the application.

The Powers of Attorney Act 2023, which received Royal Assent in September, paves the way for LPA registration to be completed online (as is currently possible in Scotland with powers of attorney). The paper option will also remain available.

If you do not have an LPA, then do not let the passing of the Act be an excuse to carry on without one until the technology is in place. Even the Chief Executive of the OPG says "…it's important to recognise that we've still got a long way to go." You – and your family – could need an LPA before that journey is over.

Footnote: In October, the Law Commission launched a consultation on allowing wills in England and Wales to be made and stored in electronic form. More information can be found from the link below:

https://s3-eu-west-2.amazonaws.com/lawcom-prod-storage-11jsxou24uy7q/uploads/2023/10/Making-a-Will-A-Supplementary-Consultation-Paper-final-1.pdf

Updated tax guidance for electric company car charging

HMRC has updated its guidance to clarify that there is no taxable benefit when an employer reimburses employees who charge their electric company cars at home. Previously, HMRC maintained that the relevant exemption did not apply.

There is a general rule that no income tax liability arises where an employee is reimbursed for expenses incurred in connection with a company car – such as repairs, insurance and car tax. Although this exemption does not apply to car fuel, electricity is not treated as fuel for tax purposes.

Exemption

The exemption applies whether a company car is used solely for business mileage, solely for private mileage or where there is mixed use.

- Although HMRC's guidance has been updated, at the time of writing their tool to check if you need to pay tax for charging an employee's electric car is still giving incorrect answers, unless a company car is used solely for business mileage.
- National insurance contribution (NIC) guidance is in line with the income tax guidance, so there are no class 1 or class 1A NICs on reimbursements for charging an electric company car at home.

Employers do, however, need to ensure that the cost of electricity reimbursed is solely for the company car.

Employers, directors and employees who have previously followed HMRC's incorrect guidance should be entitled to a refund of the tax and NICs that have been overpaid.

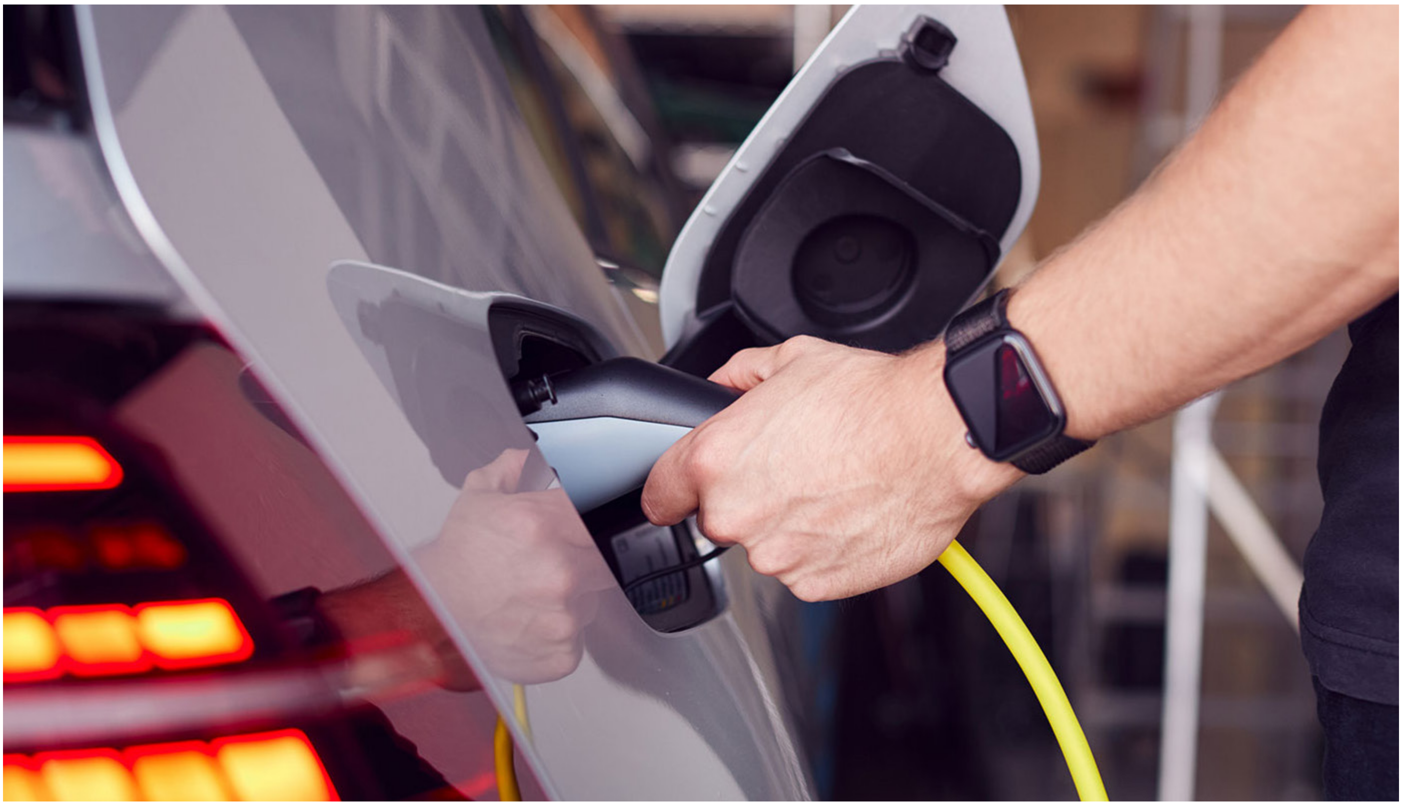
Other charging situations

There is no taxable benefit if an electric company car is charged at work, if a charge card is provided so that public charging points can be used, or if the employer pays for a charging point to be installed at an employee's home.

If the employer does not reimburse for charging an electric company car at home, the employee can claim a deduction from earnings for the electricity cost of business mileage.

The relevant section of HMRC's employment income manual can be found from the link below:

https://www.gov.uk/hmrc-internal-manuals/employment-income-manual/eim23900



The decline of trusts

The number of trusts filing self-assessment tax returns for 2021/22 was 37% lower than for 2003/04. The decline comes as no real surprise given the eroding advantages of using a trust and the recent requirement to register trusts with HMRC.

Interest in possession trusts

Interest in possession trusts have seen the sharpest decline since 2003/04, with their number falling from over 100,000 down to just 44,000.

- HMRC figures show that the decline in interest in possession trusts is mainly at the lower end of the scale where trust income is less than £10,000.
- The inheritance tax (IHT) regime for interest in possession trusts from 2006 removed much of their favourable tax treatment. Such trusts are now subject to IHT on a similar basis to discretionary trusts, so, for example, a 20% tax charge can arise on a lifetime gift into an interest in possession trust.

However, interest in possession trusts are still commonly used in wills. Typically, a spouse or partner will be given rights during their lifetime (such as being able to stay in a marital home), with the capital subsequently passing to children – which is particularly important if there are children from a previous relationship. Such arrangements still enjoy a favourable IHT treatment.

Going forward

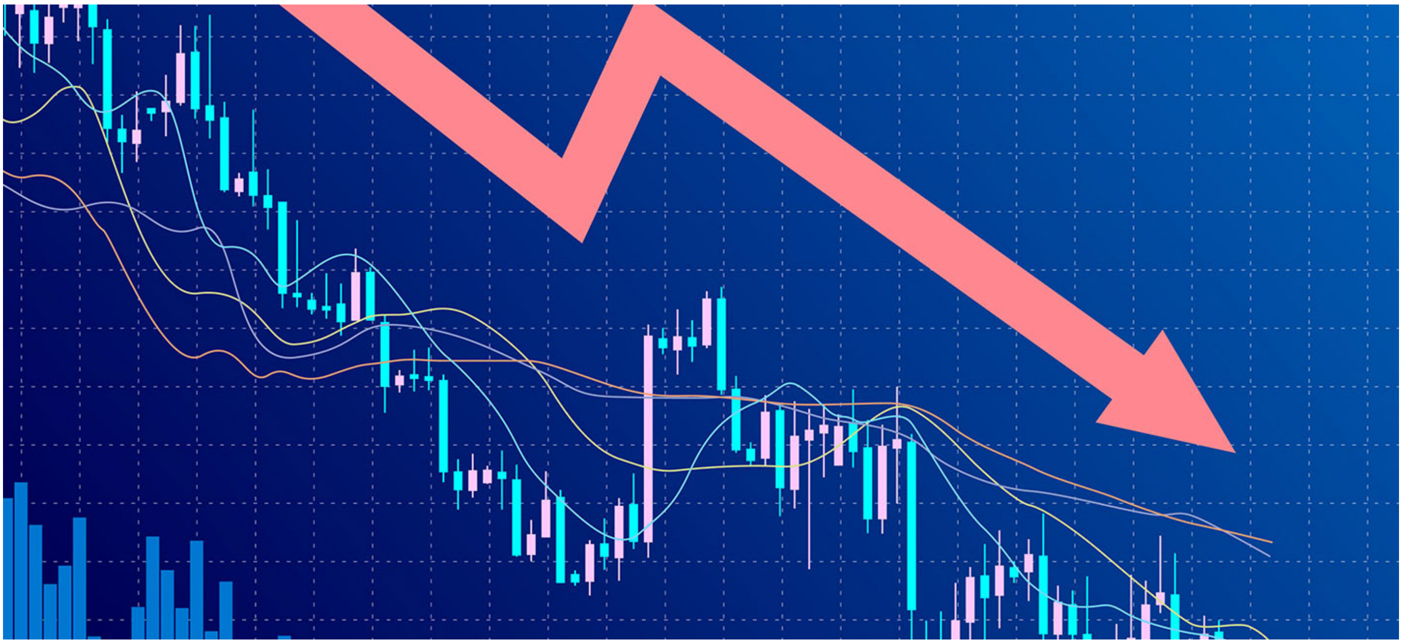
Trusts are more than ever becoming a specialist method of tax planning, and this trend is only likely to increase over the coming years.

Trust planning is still popular for those with a high net worth. Trusts allow wealth to be passed down the generations, protecting against marital breakdown, bankruptcy and family disputes.

There are reports that a future Labour Government would scrap business relief and agricultural property relief, and such a move would further limit the use of trusts. Trusts holding assets currently qualifying for relief could find themselves facing periodic IHT charges.

HMRC's latest information on trusts for October 2023 can be found from the link below:

https://www.gov.uk/government/statistics/trust-statistics/statistics-on-trusts-in-the-uk-october-2022



Should you wish to discuss this News Update in further detail please contact BGM at: communications@bgm.co.uk