



# ATHOLL SCOTT

ACCOUNTANTS & TAX ADVISERS

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# Newsletter

## MTD for VAT update

As Making Tax Digital for VAT (MTD) rolls out, it is important that businesses are aware of changes to VAT Notice 700/22 Making Tax Digital for VAT [bit.ly/2LCgP49](https://bit.ly/2LCgP49). This is updated on an ongoing basis as HMRC issues further guidance.

Significant recent updates include a relaxation of the rules on petty cash transactions. Petty cash transactions may be entered in batches, with just summary totals entered in the digital records. This applies to individual purchases where the value is less than £50 (including VAT). There is a £500 (VAT-inclusive) maximum for each entry.

There is another relaxation for businesses which would usually enter totals from supplier statements in their accounting records, rather than individual invoice totals. The relaxation means that where all supplies on a statement relate to the same VAT period, and the total VAT charged at each rate is shown, a business can record totals from the supplier statement, rather than individual invoices, in the digital records: though cross referencing outside the digital records will also be required.

We are happy to help your business adapt to MTD requirements.

## VAT: building and construction

A major change in the way that VAT is accounted for in the building and construction sector takes effect later this year.

The VAT domestic reverse charge for building and construction services applies from 1 October 2019. It is an anti-fraud measure - an administrative change, impacting invoicing and VAT return procedures. With a reverse charge, a VAT-registered recipient of services accounts for VAT, rather than the supplier.

Applying to VAT-registered businesses where payments are required to be reported through the Construction Industry Scheme (CIS), the charge will be used along the supply chain, until the recipient is no longer a VAT-registered business making an onward supply of specified construction services. The rules call this an 'end user'.

With the new rules, suppliers (VAT-registered subcontractors), will state on their invoices that supplies are subject to the reverse charge. Contractors will then use their VAT returns to account for output VAT on supplies received, instead of paying output VAT to their suppliers. Subject to normal VAT rules, the contractor can reclaim VAT on supplies received as input tax, usually leaving no net tax payable on the transaction.

Where there is an 'end user', it will be expected to provide notification of end user status to suppliers, signalling that a supplier should charge VAT as usual.

Reverse charge will not affect zero-rated supplies: nor some circumstances where suppliers are connected to end users, for example landlords and tenants. The reverse charge covers 'specified services' - essentially construction services as defined for CIS purposes. Where services - such as those of architects, surveyors and some consultants - are supplied on their own, they are not covered by the reverse charge. If supplied along with supplies subject to the charge, the whole supply will be subject to the charge. The reverse charge also includes goods, where supplied with specified services.

With new HMRC guidance issued, we recommend planning now and adapting accounting and IT systems to cope. The reverse charge may also impact business cash flow. Please do not hesitate to contact us for further advice.



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## Holiday pay: it comes with the job

You may have seen adverts from the holiday pay awareness campaign earlier this year: 'Holiday pay. It comes with the job'. This is part of a wider government initiative, the modern Industrial Strategy, aimed at giving employers and workers better understanding of workplace rights and responsibilities.

Recent research suggests some 1.8 million people currently do not receive the holiday pay to which they are entitled, and means employers are potentially underpaying their workforce something in the region of £1.8 billion each year. High-risk categories are those working non-standard hours, or in less traditional roles, such as flexible workers, zero-hour contract staff, agency workers and temporary staff.

For employers, the issue is about correctly determining employment status, and understanding the rights pertaining to the various employment categories. For tax purposes, there are just two employment categories: employee or self employed. For employment law purposes, there are three: employee, self employed or 'worker'. Holiday pay entitlement extends not just to full time staff, but to part time and zero-hours staff, too: so it is important that employers appreciate this means not just employees, but those in the 'worker' category, as well.

Relevant calculations are based on the number of days or hours worked, and how someone is paid. Any additional arrangements made with the employer also need to be factored in. The underlying concept is that pay received on holiday should mirror what would have been earned at work.

Holiday entitlement starts to build up from the first day of work; and probationary periods, periods of sick leave, maternity, paternity or adoption leave also count towards it. Basically, a week's pay is due for each week of statutory holiday leave, and most workers are entitled to 5.6 weeks of paid holiday each year.

Where someone gets a regular monthly salary, with non-varying hours and pay, no separate holiday pay calculation is needed. These staff simply get the usual monthly payment for any month which includes holiday.

But working out what constitutes a 'week's' pay for shift workers or people not working fixed hours is more complicated. Here calculations involve establishing average hours or average pay, looking back over the last 12 paid weeks of work. A 'week' usually means seven days running from Sunday to Saturday, but there can be exceptions to this. The 12-week period is known as the 'holiday pay reference period'. Note that from 6 April 2020, the holiday pay reference period increases from 12 to 52 weeks.

Care is needed where there are workers on short contracts, or where temporary or agency workers are involved. If holiday entitlement has not been taken by the time such workers leave, they are due payment in lieu of untaken holiday. There is a holiday entitlement calculator for employers to use [bit.ly/1picPIR](https://bit.ly/1picPIR). Updated guidance regarding workers with irregular hours can be found here [bit.ly/2JAEa6j](https://bit.ly/2JAEa6j). This includes details of case law regarding holiday pay, and potential problem areas where EU and UK legislation interact.

In the generality of cases, holiday pay may be unproblematic, but should you have any questions – with regard to this or any other payroll matter - we should be delighted to assist.

## Better business management: the farm

Keen to take maximum advantage of the opportunities on offer, but not always confident that they have the right management tools to use. That was the picture that emerged from a recent government survey of farming businesses in England.

The Farm Practices Survey 2018 asked a range of questions. These covered innovation; the use of data on market prices in decision making; risk management; the use of financial and management accounting software; and the prevalence of applications for grants and payments. The Survey found that 54% of farms had made key changes in the previous 12 months – often in the form of new or specialist machinery.

But better management was also on the list for farm businesses wanting to make changes. Some 10% of farms had looked to improve their management tools. HMRC's Making Tax Digital (MTD) initiative was also specifically mentioned as a motivating factor. Many farms aimed to manage business risk. Among the top strategies mentioned were good business practice; business diversification; using market information on future prices; and creating financial forecasts. Significantly however, nearly half the businesses surveyed felt that they lacked the risk management tools they needed.

The survey also highlighted the role of the farm advisor. It found that advisors were often key in driving change – prompting innovation and suggesting sources of grant funding. A fresh look at financial management in areas such as cost control; cash flow; and the timing and financing of capital expenditure, will often create opportunities for better business management. We should be delighted to help you take stock of your farm management procedures.





# Your state pension

Earlier this year, a report suggested that half a million people could be paying 'unnecessary' tax on their state pension.

The issue arises where someone carries on working beyond state pension age. At 65, state pension age is now the same for women as for men. It rises to 66 in October 2020 and is expected to rise again after this. As state pension is taxable, working whilst at the same time claiming state pension, can simply generate more taxable income - hand in hand with higher tax bills. With increasing numbers of people working in later life, the issue is worth exploring.

## Deferring state pension

You can defer your pension simply by doing nothing when the Department of Work and Pensions (DWP) writes to advise that you are close to state pension age. Doing nothing effectively defers your pension until you decide that it is the right time to start to receive payment. If you are currently receiving pension, but feel deferral would be a better option, you can change tack by contacting the DWP and asking to 'de-retire'. This puts the pension on hold. If you are economically active past state pension age and can afford to do without state pension for the time being, the option to defer state pension may be beneficial. But the calculation can be complex.

The potential advantages of deferral are:

- keeping taxable income down now
- increased payments when you do claim – 'extra' state pension
- potentially paying a lower rate of tax, depending on your circumstances.

With the introduction of the 'new state pension', the rules have changed. Different provisions apply depending on whether you reach state pension age before 6 April 2016, or after this date. In terms of deferral, the option is more generous for those reaching

state pension age before 6 April 2016. Here state pension increases every week of deferral, as long as you defer for at least five weeks. This equates to 10.4% for every 52 weeks. Qualifying under these rules also gives the option of receiving a one-off lump sum, rather than higher weekly payments.

If you reach state pension age on or after 6 April 2016, you have to defer for at least nine weeks to get increased weekly payments. The increase is just under 5.8% per 52 weeks. For instance, if you are eligible for the full new state pension, at £168.60 per week, and defer for 52 weeks, you would receive an additional £9.74 per week (at current rates). There is no lump sum option.

## Making a decision

There is a long payback period to recoup deferred income - ignoring tax. This means that any decision to defer is usually best taken in tandem with a consideration of overall health and wellbeing. If, for example, you reach state pension age before 6 April 2016, and you defer for one year, you only really start reaping a benefit after nine to ten years drawing your pension. If eligible after 2016, you benefit after about 17 years. These payback periods are before tax. If you currently pay tax at 40%, but would pay at 20% when you receive a higher amount of state pension, the payback period is less than this.

There are other factors which might make taking the pension now a better choice. Drawing your state pension could mean you can postpone drawing on any other pension provision or investments you have. For example, gains on assets and investment income on assets held within a pension fund will continue to contribute to the pension fund without an immediate tax charge. Note too, that deferral is not available if you receive certain benefits, such as carer's allowance and widow's pension. Your partner's benefit claim may also affect your entitlement. Please do contact us for further advice in this area.



# Workplace diversity

Employers wanting to be sure they are fully compliant with their legal obligations in the area of workplace inclusivity will need to be aware of new guidance relating to neurodiversity from the arbitration and conciliation service, Acas.

Neurodiversity refers to the variety of different ways that the human brain may work and process information. Whilst most people are 'neurotypical', more than 15% of people in the UK are thought to be neurodivergent. Neurodivergence involves different ways of thinking and learning, and includes, for example, attention deficit disorders, autism, dyslexia and dyspraxia.

Neurodivergence is experienced along a spectrum, so characteristics can differ from one person to another. But what an

employer needs to know, is that where someone is neurodivergent, this will usually amount to a disability under the Equality Act 2010. It is not just employees who are protected under the Act. Workers, agency workers, apprentices, and some other categories of staff are also protected – as are job applicants.

This means that where someone discloses neurodivergence, there is an obligation to make reasonable adjustments to the workplace, and

the role of the employee, sufficient to remove or minimise any disadvantage they may experience. Knowing what might constitute a reasonable adjustment is an area where employers can lack confidence. Acas can offer advice on its helpline 0300 123 1100. It also provides tips on managing neurodivergent staff, and suggests ways in which they can be supported in their roles at work [bit.ly/2Ob1q9z](https://bit.ly/2Ob1q9z).



# Tax return special

As self assessment tax returns for 2018/19 will soon be on the agenda, there are some key developments to keep in view.

## Directors' tax returns

The question of whether HMRC has been right to require all company directors to file a self assessment tax return has prompted debate at tax tribunals over the years.

In a welcome move, HMRC has clarified its guidance. The correct position is that company directors whose income is taxed at source, and who have no further tax liability, do not need to complete such a return. Many directors however, will receive dividends as well as salary from their companies. Where there are dividends in excess of the dividend allowance (currently £2,000) there will usually be an additional tax liability to collect under self assessment, and a return will be required as usual.

Should you receive a notice to file, and consider that you have no other taxable income, please do talk to us straight away. In these circumstances, it would usually be appropriate to request that the notice to file is withdrawn, but it is important to act within time limits. We are always happy to assist with any of the administrative complexity involved in running your company.

## Residence matters

Taxpayer status broadly depends on where someone's main residence is located, and now that both Wales and Scotland have devolved powers over taxes, taxpayers within the UK are classified as having Welsh, Scottish or rest of UK (rUK) taxpayer status.

It is important that HMRC gets any taxpayer residence correct. At present, tax rates and bands in Wales are the same as in rUK, but this is not the case with Scotland. An error in Scottish taxpayer status therefore has the potential to create the wrong tax liability. So too could incorrectly classifying a Welsh or rUK taxpayer as Scottish.

A problem with HMRC computer systems in this regard has surfaced during the year. This has led to some Scottish taxpayers being wrongly classified as having rUK status, and some rUK taxpayers wrongly being given Scottish status. It is still not completely clear how this has happened, but HMRC may have been overwriting addresses reported on self assessment tax returns with details already held on file.

There are also reports of problems with the issue and correct application of Welsh tax codes. Welsh PAYE taxpayers should have a C code, just as Scottish taxpayers have an S code. HMRC believes that there may be some initial issues with employer payroll software applying C codes incorrectly. In some cases, Welsh taxpayers have been charged tax at Scottish rates. HMRC intends to check the

system and reissue C codes over the next few months if there is a discrepancy between the code on its system and the code applied by employer software.

There are two subsidiary points to note. HMRC systems usually identify taxpayer residence from postcode information. Where someone is on its system as having, say, a Welsh postcode, they are flagged as a Welsh taxpayer. But postcode information will not always produce the correct result. Firstly, the address that you choose to use for HMRC may not in fact reflect your Scottish or Welsh tax residence. This could be the case where you have a correspondence address - for example, if you live or work abroad for a while. It could also apply if you have more than one residence. In these circumstances, HMRC may be at particular risk of making an error. Secondly, if you have more than one residence, the capital gains tax private residence election does not determine income tax status for Scottish and Welsh income tax.

## Change of address

If you want to notify a change of residential address to HMRC – wherever in the UK you live - HMRC suggests it is best reported via the personal tax account (PTA) [bit.ly/2VUH07b](https://bit.ly/2VUH07b) As outlined above, it would certainly seem unwise to rely on the self assessment tax return providing effective notification of a change of address.

Employers should make sure that employees are aware of the importance of HMRC having their correct address. They need not just to alert you, the employer, to a change of address, but to use the PTA to tell HMRC as well.

## Date of birth

HMRC has indicated another problem area, where dates of birth reported on self assessment tax returns fail to match data it already holds. What currently happens in these circumstances is that the information from the tax return is used to overwrite other HMRC records. The tax return date of birth is used as input for at least 16 other government systems, such as state pension records. Date of birth can also be used as part of the security procedure when a taxpayer phones HMRC, or wants to access their digital tax account. It is clearly very important that the tax return provides the correct detail to prevent HMRC applying the wrong information across the board.

As HMRC's operations become increasingly digital, teething problems with computer systems like these do seem likely to occur. Please be assured that we will be particularly vigilant on your behalf during the completion of your returns this year.