HOLLIS AND CO

CHARTERED ACCOUNTANTS

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MARCH NEWSLETTER

Homeworkers and travel update

A recent decision by the Upper Tier Tax Tribunal has the potential to restrict tax relief on the travel claims of many self-employed taxpayers.

- In *Samadian v HMRC* a self-employed doctor was denied tax relief for the cost of his journeys travelling between his office, which was based at his home, and the two hospitals where he held regular clinics.
- The Tribunal held that his home was a workplace, however it also decided that his attendance at the hospitals was 'regular and predictable', enough to make them permanent workplaces. His journeys from and to home were private travel (and so tax relief was denied) because there was an inevitable element of non-business motivation for the journey (that of maintaining a home also as a residence).
- Journeys between his home and his patients' houses were treated as allowable because the patients' homes were not permanent workplaces.

The decision has surprised on-lookers and has attracted criticism for clouding the already over-complicated travel rules. The outcome of this decision is that self-employed taxpayers who are carrying on a business from home which involves at least some repetitive travel to certain locations should be aware that they may be challenged on claiming travel to and from home.

Individuals should review their circumstances and adapt their travel claims accordingly. This may mean that they are advised to keep more detailed mileage logs and it will also mean that they will need to monitor their working practices and workplaces to ensure that they do not get caught out, like Dr Samadian.

RTI Penalty update

HMRC have announced that its proposed automatic penalty regime for in-year late filing and payment will now follow a staggered introduction. The new penalty provisions were due to take effect for employers filing payroll under Real Time Information (RTI) reporting from 6 April, 2014. However following representations from professional bodies HMRC have conceded that there are still some teething problems with RTI, as well as in reconciliation of PAYE payments to RTI reports. Some employers are struggling to get up to speed with the new requirements. This is a welcome announcement and is an example of HMRC being prepared to listen to its customers.

The new staggered timetable will be as follows:

- April 2014 - in-year interest on any in-year payments not made by the due date
- October 2014 - automatic in-year late filing penalties
- April 2015 - automatic in-year late payment penalties

End of year, and PAYE late payment penalties will continue to be charged as in previous years.

Tax Calendar

March 2014

2 First 5% penalty surcharge on any 2012/13 tax due on 31st January 2014 which is still unpaid.

19/22 Monthly PAYE/Class 1 NICs/student loan and CIS payments due.

19th for non-electronic payments, 22nd for online payments.

April 2014

5 End of 2013/14 tax year.

Employers submit final FPS for the last payday in 2013/14.

Last day to use up your annual exemptions for capital gains tax, inheritance tax and ISA's.

6 Start of 2014/15 tax year.

19/22 Monthly PAYE/Class 1 NICs/student loan and CIS payments due.

19th for non-electronic payments, 22nd for online payments

May 2014

1 Additional daily payments of £10/day up to a maximum of £900 for failing to file self-assessment tax return due on 31 January 2014.

3 Notify HMRC of any changes in company car information for the previous quarter using P46(Car).

19/22 Monthly PAYE/Class 1 NICs/student loan and CIS payments due.

19th for non-electronic payments, 22nd for online payments

31 Ensure all employees have been given their P60s.

June 2014

19/22 Monthly PAYE/Class 1 NICs/student loan and CIS payments due.

19th for non-electronic payments, 22nd for online payments

July 2014

5 End of tax quarter and last date for agreeing PAYE Settlement Agreement (if any) for tax year ended 5 April 2014.

6 Deadline for expenses and benefits annual return forms P9D, P11D and P11D(b) to reach HMRC.

Deadline for employers to give copies of forms P9D and P11D to employees.

Employee benefit update

On the 6 April 2014 there will be a number of changes to employee benefits for tax. Among the most significant are:

- An increase in the tax-free amount that an employer can loan to an employee in a year from £5,000 to £10,000. This move will be welcomed by employees who use ‘season ticket loans’ to pay for travel cards. Remember, however, an employer loan may be used for any purpose.
- The official rate of interest fall from 4.0% to 3.25%. The rate is used to calculate penalty interest on tax paid late, but is also applied to beneficial loans above the tax-free threshold (as point above). This means it is more tax efficient for the individual to have outstanding borrowings with their employing company. By way of illustration, if an employer makes an employee a £100,000 loan for a full year, it will now cost a higher rate taxpayer £300 less in tax.
- The car benefit tax charge for drivers of company cars increases as the CO_2 bands by which the benefit is calculated shift upwards by 1%. For example, a car with CO_2 emissions of between 76-94g/km (the lowest band with an appropriate %) will attract an appropriate percentage of 11% (10% in 2013/14). The ultra-low emissions threshold remains at 0% for cars emitting no more than 75g/km, although it is currently proposed that this will fall to 50 g/km from April 2015. If a car is already at the highest emitting band there will be no increase in taxable benefit for 2014/15.

Directors’ loans—tax year end

It may be a good time to remember new directors’ loans rules that were introduced in March 2013. These were designed to prevent a director from repaying his overdrawn company loan account in order to avoid a corporation tax charge on the company, only to extract the funds again on the following day. This practice was known as 'bed and breakfasting'. The new rules are as follows:

- **The 30-day rule** - loan balances of £5,000 or more: if a repayment of £5,000 is made and then the same amount is re-withdrawn within a 30-day period, the repayment is matched with the later withdrawal First in First Out (FIFO). The effect is that the original loan is not treated as being repaid.
- **Replacement rule for loans exceeding £15,000**: if a repayment of at least £5,000 is made against an outstanding loan of £15,000 or more, but there is an intention to withdraw at least the sum repaid again later it is not treated as a repayment but is instead matched against the subsequent drawing.
- These two measures may easily catch out directors who are trying to repay loans by instalment, if they are not careful about timings.

There is concern that these rules may catch out innocent arrangements — for example where directors take drawings throughout the year which are then tidied up with an anticipated and genuinely intended dividend. Care, therefore should be taken in the timing of the shareholders’ meeting, to ensure that a dividend voted fully repays the outstanding loan.

If you have any queries in relation to any of the topics covered in this newsletter then please do not hesitate to contact us.

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