Green&Co
ACCOUNTANTS AND TAX ADVISORS

Government gear change on company car tax

Why the business-next-door could soon be driving electric

A clean, green era with new emissions tests and benefit in kind (BiK) rates gets on the road in April 2020. But what does the drive to cut emissions and grow electric technology look like in terms of tax?

Key to the new regime is the new Worldwide Harmonised Light Vehicle Test Procedure (WLTP), which replaces the current New European Driving Cycle (NEDC) emissions test. With higher carbon dioxide (CO2) readings anticipated under WLTP, vehicle tax will be impacted in various ways. From April 2020, the CO2 value obtained under WLTP will be used to determine Vehicle Excise Duty – although existing VED rates are retained in April, pending further government consultation. And for all new cars provided to employees and available for private use, first registered from this date, the WLTP CO2 figure will affect BiK treatment.

For BiK purposes, tax is worked out by multiplying the list price of the car (including most accessories) by the 'appropriate percentage'. Percentages are determined by fuel type and level of CO2 emissions.

- For cars first registered from 6 April 2020, most BiK rates are reduced by two percentage points. This changes the rates published earlier and applies for the 2020/21 tax year only.
- In 2021/22, and again in 2022/23, they increase by one percentage point.
- BiK calculations for 2020/21 and 2021/22 now involve checking whether a vehicle is registered before, or after 6 April 2020, to work out the appropriate percentage.
- All new zero emission models are free of company car tax for one year from 6 April 2020, to incentivise the shift to green vehicles. The benefit is 1% in 2021/22, and 2% in 2022/23.
- Electric mileage range will be key to the appropriate percentage for some hybrid vehicles.
- The BiK percentages for cars registered before 6 April 2020 are frozen for 2021/22 and 2022/23.

The changes provide business owners with considerable food for thought, and we have only been able to highlight key points here. The decision to go electric is a major one, involving not just tax, but consideration of the available infrastructure, charging facilities, total business mileage, and other issues. Do contact us for an in-depth discussion of your business motoring strategy, and tax efficient provision of employee benefits.

THE BOTTOMLINE

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Tax on the Sale of Residential Property

There are three major changes on the horizon which will affect the sale of residential properties.

The changes are:

1. Replacement of lettings relief with lodgers relief
2. Reduction of the final exempt period
3. Reporting capital gain

All of the changes come into effect from 6 April 2020.

It is important to bear in mind that the disposal date for capital gains tax purposes is the date that contracts are exchanged rather than the completion date.

None of the changes affect sales where the property has been your main residence for the whole period of ownership.

Let us look at each of the above in turn.

1. Replacement of lettings relief with "lodgers" relief

The current position

At present, where a let residential property is sold and it has been your main residence at some point during ownership, as well as receiving exemption from capital gains tax for the period for which the property was your main residence, you can also claim lettings relief for the period for which the property is let.

The amount that you can claim is the lowest of the following:

- The amount of gain attributable to the let property on a time-apportioned basis,
- The amount of main residence relief claimed for the period during which you lived in the property, and
- The maximum amount prescribed by tax legislation of £40,000.

The position from 6 April 2020

Under the new rules, lettings relief disappears, unless you have lived in the property at the same time as a lodger. Such instances would be relatively uncommon.

2. Reduction of the final exempt period

The current position

Under the current rules, the last 18 months of ownership is always exempt from capital gains tax, provided that you have occupied the property as your main residence at some point during your period of ownership.

The position from 6 April 2020:

From 6 April 2020, the final exempt period is reduced from 18 months to 9 months.

3. Reporting a capital gain

The current position

All capital gains, including residential property are reported on a self-assessment tax return, which must be submitted to HMRC by 31 January following the end of the tax year. The tax is due for payment on the same date.

The position from 6 April 2020:

From 6 April 2020, any chargeable gain on a residential property must be reported to HMRC and the tax paid within 30 days of completion. It may not always be possible to determine the rate of capital gains tax payable due to the interaction between income tax and capital gains tax rates, the possibility of further capital gains or losses arising in the same tax year, etc., so an estimate may be required.

You still have to report any gains on the self-assessment tax return by 31 January following the end of the tax year as well. Any tax paid on account under the "30-day return" is taken into account when arriving at the final liabilities for the tax year.

Conclusion

If you are planning on selling a property which is likely to be affected by the new rules, it would be better to exchange contracts before 6 April 2020.

If you are selling a property likely to be affected but are unable to sell, it may be better to engineer a deemed disposal before 6 April 2020 to crystallise the reliefs before they disappear, for example by transferring the property to a trust prior to sale.

If you feel that you may be affected by the above changes and would like to discuss any aspect of the new rules, please contact our Tax Team.

Are you making the most of R&D?

Data published recently by the Office for National Statistics (ONS) revealed that the amount UK companies spent on Research and Development (R&D) totalled £25 billion in 2018. With this in mind, we explore how you can make the most of any R&D tax reliefs available to you.

R&D tax reliefs: the benefits

The government actively encourages companies to carry out R&D in order to help grow their firm and increase profitability. A wide range of tax incentives exist, which are designed to encourage investment in R&D. Different types of incentives are available, depending on the size of the company. These include an increased deduction for R&D spending, alongside a payable R&D tax credit for those companies not yet in profit.

The government has stated that it is 'committed to improving access to R&D' for small and medium-sized enterprises (SMEs). Below, we outline how companies can claim R&D tax reliefs.

Claiming R&D tax reliefs

SMEs are permitted to claim R&D tax relief if they have fewer than 500 members of staff and a turnover of under €100 million, or a balance sheet total of less than €86 million. The relief permits SMEs to deduct an additional 130% of qualifying costs from their yearly profit. This is in addition to the normal 100% deduction, giving a total deduction of 230%.

A company may be able to surrender losses for cash repayments in instances where the R&D tax claim creates a tax loss. Currently, this is calculated at 14.5%.

In order to make the most of R&D tax relief, a company must have incurred expenditure on qualifying R&D projects that are related to its trade. Projects must be innovative and should assess and attempt to resolve scientific or technological issues.

Qualifying expenditure falls into different categories. These include staffing costs; software costs; expenditure on consumables or transformable materials; costs of work done by subcontractors; and costs of clinical trial volunteers.

Using the Research and Development Expenditure Credit (RDEC) scheme

The RDEC scheme is a replacement for the large company scheme, but can also be used by SMEs that have received a grant or a subsidy for their R&D project or are subcontracted to do R&D work by a large company. The credit is taxable and is calculated at 12% of a company's qualifying R&D expenditure incurred. This credit may be used to discharge the corporation tax liability, depending on whether the company makes a profit or a loss. It could also result in a cash payment. Where no corporation tax is due, the amount can be repaid net of tax or used to settle other debts..

For further information and advice on R&D and claiming R&D relief, please get in touch with us.

Business and Tax Round-up

UK minimum wage gets largest ever raise

Millions of UK workers will see their pay rise after the government made the biggest ever cash increase in the legal minimum wage.

The government has announced a 6.2% increase in the National Living Wage (NLW), which applies to workers aged 25 and over. The NLW will rise from the current rate of £8.21 to £8.72 an hour, in the largest raise since it was introduced two decades ago.

The government has confirmed that the new rate will start on 1 April 2020 and will result in an increase of £930 annually for 2.8 million full-time workers earning the NLW.

Workers aged under 25 earning the National Minimum Wage (NMW) will also see increases of between 4.6% and 6.5%, depending on their age.

Commenting on the rise, Bryan Sanderson, Chair of the Low Pay Commission (LPC), said: 'The NLW has been an ambitious long-term intervention in the labour market. The rate has increased faster than inflation, faster than average earnings and faster than most international comparators.

'This has raised pay for millions without costing jobs, although employers have had to make a variety of other adjustments to deal with the increases.'

Tax Tip

Review your business structure

You may be able to reduce your annual tax bill by reviewing your business's structure, as there are often significant tax savings to be made. During the early years of a business, it may be preferable to operate as a sole trader or in a partnership. However, as your profits increase, you may find it more beneficial to form a limited company.

Incorporating your business also has many non-tax advantages. Incorporated companies enjoy legal continuity, as they are legal entities in their own right. In addition, if a business owner ever wished to transfer ownership, as an incorporated company this can be achieved with greater ease than if trading as a sole trader or in a partnership.

Please get in touch with us for more information.

Reminders for your diary

March 2020

1 New Advisory Fuel Rates (AFR) for company car users apply from today.

2 5% late payment penalty on any 2018/19 outstanding tax which was due on 31 January 2020 and still remains unpaid.

19 PAYE, Student loan and CIS deductions are due for the month to 5 March 2020.

31 End of corporation tax financial year.

End of CT61 quarterly period.

Filing date for Company Tax Return Form CT600 for period ended 31 March 2019.

Last minute planning for tax year 2019/20 – please contact us for advice.

April 2020

5 Last day of 2019/20 tax year.

Deadline for 2019/20 ISA investments and pension contributions.

Last day to make disposals using the 2019/20 CGT exemption.

14 Due date for income tax for the CT61 period to 31 March 2020.

19 Automatic interest is charged where PAYE tax, Student loan deductions, Class 1 NI or CIS deductions for 2019/20 are not paid by today. Penalties may also apply if any payments have been made late throughout the tax year.

PAYE quarterly payments are due for small employers for the pay periods 6 January 2020 to 5 April 2020.

PAYE, Student loan and CIS deductions are due for the month to 5 April 2020.

Deadline for employers' final PAYE return to be submitted online for 2019/20.

May 2020

3 Deadline for submitting P46(Car) for employees whose car/fuel benefits changed during the quarter to 5 April 2020.

19 PAYE, Student loan and CIS deductions are due for the month to 5 May 2020.

31 Deadline for forms P60 for 2019/20 to be issued to employees.

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