

# JTC NEWSLINE

Issue 109

December 2017

## A surprise in the Budget for construction - we will be walking backwards for Christmas in October 2019

Well I hope that attracted your attention..... because there was an announcement in the Budget that will cause a major change for construction at all levels and which has passed all the commentators by.

From October 2019 it seems likely that all VAT being paid between construction firms – contractor to subcontractor and on subcontractor to subcontractor, will be ‘reverse charged’. This sounds boring and technical but you must not switch off because it will have very serious consequences for your cash flow and IT accounting systems.

From October 2019 the main contractor who owes a subcontractor £100 plus VAT £20, will only pay him £100 and will pay the VAT straight to HMRC.

The subcontractor will therefore receive only 83% of the actual cash into his bank account that he gets now. Yes, he won't have to pay as much VAT to HMRC as he does now, but there won't be the funds swilling about to keep going in an hour of need.

VAT owed to the Government is often used by firms to keep going. It is not just main contractors and major subcontractors who will be affected – everyone paying anyone else for work done who is not the end consumer of the service – a customer – will be required to reverse charge VAT.

The whole business of invoicing for work done and what VAT to show on an invoice, who determines the rate of VAT due on a supply and how we all communicate the rates to be used, will be up for grabs.

The consultations with HMRC begin in December. All accounting software used in the industry will have to change. On 1 October 2019 a dancefloor of people moving clockwise around the room will have to start dancing anti-clockwise. We will be dancing backwards for Christmas 2019.

Plus we will all be “Making Tax Digital” and getting our accounting packages to report quarterly at the same time.

It is going to be a difficult couple of years for the IT, tax and accountancy specialists in construction. ■

## The rest of the Budget November 2017

The Chancellor, Philip Hammond, presented his Autumn 2017 Budget on 22 November 2017. Apart from the announcement of reverse charging VAT in construction there were few tax measures that will have much effect.

### VAT

- VAT threshold is to remain as it is.
- Reverse charge for construction from October 2019.

### Investing in tech and infrastructure

- R & D Tax Credit to increase to 12%

### Cars and car tech

- No benefits in kind for at work vehicle charging of electrical vehicles.
- New levy on new diesel cars.
- Fuel duty continues to be frozen.
- Tolls on Severn Bridge to be abolished.

### Climate change

- Plastic bottle tax: a new charge on single use bottles.

### Income tax rates from April 2018

- Personal allowance rises to £11,850.
- Higher rate threshold to rise to £46,350.

National Living Wage will rise from £7.50 an hour to £7.83 as planned.

### Alcohol Tax

- Freeze on alcohol duty from April 2018.
- Increased duty on strong ciders from April 2019.

### Company Tax

- Phased reduction in CT to continue.
- Indexation allowance for capital gains for companies frozen at 31 Dec 2017.

### Business Rates

- Annual uprating: switch from RPI to CPI moved forward by two years.
- Revaluations will be every three years (instead of five).

### Empty properties

- Local authorities to be allowed to set a 100% premium on council tax.

### Stamp Duty Land Tax

- No SDLT for first time buyers purchasing homes costing up to £300,000.
- Relief available on first £300,000 for homes costing up to £500,000 in London. ■

If you have a query relating to any of the items featured in newsline please contact Liz Bridge.

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**Beware – there may be HMRC activity in the employment/self-employment area**

Firms which specialise in trades like plastering and partitioning and interior fit out have been in receipt of letters warning that they should check the employment status of workers.

I am going to quote a section of the letter (below) — if you receive such a letter you must act on it. It is a dangerous letter to have because if you do not use the employment tool on the HMRC site to review the status of workers they will follow up and demand interest and penalties.

If you have any questions or need help with this, you can call our helpline on 0300 123 4464 or go to [www.gov.uk](http://www.gov.uk) and search for 'Pay employer's PAYE'. If you have a tax adviser, please discuss this with them too.

**Contacting us**

If you need to contact us about this letter, you need to quote the case reference **ES&I Construction Letter 1** and any other references shown above. If you write to us you need to use the address shown above. If you send any documents, you must tell us if you want them returned as we may securely destroy them after 90 days.

**If we carry out a compliance check**

If we carry out a compliance check and find something wrong, you may be liable to a penalty. For more information about inaccuracy penalties, see our factsheet CC/FS7a 'Penalties for inaccuracies in returns or documents'. Our factsheet CC/FS9 'The Human Rights Act and penalties' explains your rights when we're considering penalties. To find our factsheets, go to [www.gov.uk](http://www.gov.uk) and search for 'CC/FS7a' and 'CC/FS9'.

Please now check that you are getting the employment status right for any worker who you pay on a self-employed basis. To help you do this, you can use our online tool, go to [www.gov.uk](http://www.gov.uk) and search for 'check employment status for tax (CEST)'.

We'd like you to carry out this check within the next 30 days. We'll contact you again later to ask you what action you've taken. Please keep a copy of any decision produced by CEST as we may ask to see this at a later date.

When you have completed the check, if you consider that any worker should be an employee, you need to register them with us and the next time you pay the worker you must:

- Calculate the appropriate PAYE tax and Class 1 National Insurance contributions due.
- Report the details of pay and deductions for these new employees in your 'Full Payments Submission' (FPS)
- Pay us any PAYE tax and National Insurance contributions deductions you've made by 22nd of the next tax month. ■

**Simple Assessment replaces Self-Assessment for some**

HMRC started sending out Simple Assessment Calculations 'SAC' to taxpayers from September 2017. These set out their tax liability without the need for them to submit a Self-Assessment return. This area is new to us all.

Simple Assessment is intended to be used for taxpayers with simple affairs, when HMRC believe that they have already received all of the information needed to calculate the taxpayer's liability either from the taxpayer themselves or from third parties. HMRC can issue one to individuals and trustees.

Simple Assessment will initially apply to the following groups

- New state pensioners who have income exceeding the personal tax allowance.
- Taxpayers who are subject to PAYE and who cannot have that tax collected through their tax code.

State pensioners, who receive state pension over their personal allowance and have received a notice to file a Self-Assessment for the tax year 2016-2017 should complete their return as usual. They will join Simple Assessment in 2017-18.

**Key features**

HMRC will send out a SAC, this will be either as a P800 calculation or a PA302 calculation.

This will calculate an individual's tax liability based on their:

- Earnings under PAYE, state pension, employer pension
- Benefits and expenses as reported by their employer
- Savings interest as reported directly to HMRC by their employer, pension provider, the state or the banks.
- An individual who receives a SAC does not need to notify HMRC of chargeability to tax unless there are chargeable income or gains which are required to be declared under Self-Assessment (SA).
- HMRC can withdraw a notice to file a Tax Return if they intend to issue a SAC.
- An individual will not be subject to a late filing penalty if they have received a withdrawal notice.
- The SAC will set out
  - o The amounts which are chargeable to income tax and capital gains tax, taking into account any relief or allowance that is applicable.
  - o The amount payable.
  - o How the amount has been calculated.
  - o How the amount should be paid.
  - o The payment due date, which will be no earlier than it would have been had a Self-Assessment Return been submitted.
- HMRC can withdraw a SAC once it is issued, and issue more than one SAC relating to the same tax year.
- An individual who disagrees with a SAC should notify HMRC and provide reasons for their disagreement within 60 days of the date of issue.
- HMRC has until four years from the end of the tax year to issue SACs.
- The tax due date remains the same, unless the SAC is issued after 31 October following the tax year, in which case it is extended to three months from the date of issue. ■

**Company accounts: you must use iXBRL**

HMRC have announced that from 1 November 2017 they will no longer be accepting forms CT600 where the attached accounts or tax computations are not in iXBRL format.

The use of the iXBRL format has been mandatory since 2011, so it is surprising that HMRC are still receiving a significant number of returns in the wrong format. If the return is filed with attachments in the wrong format, the taxpayer will be asked to refile the CT600 and if this is not done by the deadline penalties will apply.

Other attachments (e.g. "white space" notes) should still be filed in pdf format. ■

**Class 2 NICs to stay for one more year**

Class 2 NICs, currently payable by the self-employed at a rate of £2.85 per week, will now remain until 6 April 2019, as opposed to 6 April 2018, as originally intended following HMRC consultation.

The delay is to enable government to engage in discussions on how the abolition will affect self-employed individuals with low profits.

The one year delay will also apply to the revised NIC treatment on termination payments and NICs on sports testimonials. ■

**Zero-rated VAT for dwellings**

In *Duncan Lichfield v HMRC [2017] TC06040*, the First-Tier Tribunal (FTT) clarified that where a planning condition contains a specific 'occupation' condition, it amounts to a prohibition on use restriction. If planning permission imposes a restriction on the separate use and disposal of a property, that property cannot meet the definition of a 'dwelling'. This can cause a loss of zero-rating, or the refusal of VAT recovery to a DIY housebuilder.

In the case, the planning condition stated that the **"occupation of the dwelling shall be limited to a person solely or mainly working at the property currently known as St Audries Garage"**. This was enough to prevent zero-rating. ■

**Gossip .....**

The top story of the month is that the Supreme Court has saved the taxpayer £17billion.

£17bn was the sum that Littlewoods had been claiming from HMRC in compound interest in respect of a VAT repayment claim over and above interest calculated on a simple basis. The court ruled that the simple basis should prevail. Whilst £17 billion will help the NHS, it is disappointing to think that HMRC only has to pay simple interest on a repayment however long it takes to give back money. ■