The Construction Industry
Joint Taxation Committee

JTC

JTC NEWSLINE

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Making Tax Digital (MTD)

Making Tax Digital starts with the first VAT return, after 1 April 2019. By now you should know that your software is compliant and that for you MTD will happen at the press of a button. If you still have not done anything you **must act now**.

The good news is that there are no late filing penalties for the first year you are in MVD; the bad news is that late payment penalties will continue to apply. If you pay by direct debit and experience problems with the software you may have to make a manual override to avoid the late payment penalty.

If you cannot get a return submitted always remember to check that the tax will be paid. A lot of systems provide for HMRC to apply for a direct debit for the amount owed as shown on the return. If the return submission fails, HMRC will **not** apply for payment and payment will be late.

It sounds like a statement of the obvious, but, if you are expecting to comply with MTD make sure you are operating the correct version of your software to allow the correct form of filing and that you know how to switch to the correct version.

For example, many people use unsupported versions of Sage and just expect it to be compliant because Sage does have a new compliant product. This is unrealistic! ■

Making Tax Digital (MTD) for VAT service update

- The MTD for VAT service is now open to all customers who are mandated to use it for period starting on or after 1 April 2019.
- The pilot is now open to VAT groups to allow them to start testing the service.
- Agents can sign up their clients now on GOV.UK.
- VAT Notice 700/22 has been updated to confirm that the soft landing period on digital links for those that are deferred is extended by 6 months to October 2020. ■

Off-payroll working - IR35 - people working through limited companies

At Budget 2018, the Chancellor announced that the government will reform the off-payroll working rules for the private sector from April 2020 following the changes made to the rules for working in the public sector.

They are seeking views on how the off-payroll working rules will work from April 2020 and have published a consultation document which includes information on how businesses can prepare for the reform.

The consultation will run until 28th May 2018 and you can view it on gov.uk via this link https://www.gov.uk/government/consultations/off-payroll-working-rules-from-april-2020

If you have more than 50 employees, a turnover of £10.2 million or balance sheet assets of £5.2 million you should read it and think. ■

Warning – self-assessment penalties will be only too easy to trigger

A decision by HMRC to delay issuing penalty notices for late filing of tax returns as a contingency measure to help cope with Brexit pressures means that taxpayers will be left unaware that they may become liable to significant extra penalties.

Each February, HMRC issues £100 penalty notices following the self-assessment deadline (31 January). However, Brexit related pressures on HMRC resources mean that the issue of those notices will be delayed this year - possibly until near the end of April 2019.

The £100 penalty notice is an important prompt to taxpayers that their return is outstanding as well as reminding them that they risk incurring an additional penalty of £10 per day if the return is still outstanding after three months from the 31 January due date.

The delay in issuing the penalty notices may give taxpayers who haven't filed their 2017/18 tax returns a misplaced confidence that they will either avoid any penalty or, at worst, incur only the fixed £100 penalty. If the £100 penalty notice is issued by HMRC at the end of April 2019, a taxpayer may (by the time the notice hits their doormat) already be incurring additional penalties at the rate of £10 for each day starting from 1 May 2019. Those £10 daily penalties will continue until their return is filed online. If that takes until, say, 21 May, that would amount to another £200 of penalty - even if there is no tax outstanding.

Anyone who has yet to file their 2017/18 tax return should do so as a matter of urgency. They won't be able to avoid the £100 penalty unless they have a reasonable excuse but getting the return filed online no later than 30 April will mean that they will avoid the additional £10 per day. ■

What is the 2019/20 PAYE tax code?

The basic PAYE tax code is **1250L** for employees. This gives an employee a personal allowance of £12,500 for the year. This is also called the emergency code.

Employees who earn more than £125,000 have no personal allowance and receive an **0T** tax code.

Employees who earn between £100,000 and £125,000 have their personal allowance tapered away. It is reduced by £1 for every £2 in excess of £100,000.

Employees who have claimed the Marriage allowance, by virtue of a low earning spouse have a code with a suffix of **M**. Those who surrender the allowance have a suffix of **N**.

Employees who are Scottish Taxpayers have the prefix **S**. The higher rate threshold in Scotland will remain at £43,430 in 2019/20, compared with an increase to £50,000 in the rest of the UK.

Employees who are Welsh Taxpayers have the prefix **C**. The higher rate threshold in Wales is the same as that for the rest of the UK at £50,000.

What tax code do I use for 2019/20?
If the employee is a starter or casual worker complete the Starter Checklist. Otherwise use **1250L** for employees unless:

- Notification of a different code is advised by HMRC.
- The employee's code was not the basic code last year, in which case expect to:
  - Add 65 to any tax code ending in **L**.
  - Add 71 to any tax code ending in **M**.
  - Add 59 to any tax code ending in **N**.

It is advisable to double check with HMRC, and if in doubt check online or phone the tax office.

Do not carry forward any week 1 or month 1 adjustments. ■

Scottish Income Tax

The Scotland Act 2016 gave the Scottish Government the power to set Income Tax rates and thresholds for Scottish taxpayers for 2017/18 onwards.

- The draft Scottish Budget, published on 12 December 2018, confirmed that the 5 band structure and tax rates (19%, 20%, 21%, 41% and 46%) will remain the same for 2019/20.
- The thresholds for lower tax rates will rise in line with inflation and the higher rate threshold has been frozen.
- If you have any employees who live in Scotland for most of the year, they need to make sure HMRC have their correct address details on record so that they pay the correct amount of Income Tax. ■

Advisory fuel rates from 1 March 2019

HMRC have published new advisory fuel rates for company car drivers which will apply from 1 March 2019. The new rates are lower than those in effect from 1 December 2018 and are:

Engine size	Petrol	Diesel	LPG	Electric*
1,400cc or less	11p		7p	4p
1,600cc or less		10p		4p
1,401cc - 2,000cc	14p		8p	4p
1,601cc - 2,000cc		11p		4p
Over 2,000cc	21p	13p	13p	4p

* Fully electric cars only

You can use the old rates up to 31 March 2019. ■

Welsh Income Tax

From 6 April 2019 all people living in Wales and who pay Income Tax will pay Welsh rates of Income Tax.

- PAYE individuals resident in Wales will receive a new tax code with a prefix **C**, including individuals whose income is below the tax threshold.
- Self-employed individuals who file an online tax return will be asked to note their country of residence when filing their 2019/20 tax returns.
- It is important that your employees inform HMRC when they change address. ■

Reverse Charge VAT

The fog is slowly clearing on the changes ahead and HMRC are preparing a reverse charge website where all their guidance will be together with examples of the layout of new invoices and applications for payment and useful case studies.

While we wait for the final versions to be agreed I suggest a letter could be sent to your VAT registered subcontractors to draw their attention to the coming changes and start them thinking and planning. The more firms that know and understand that there are changes ahead the better.

This letter is not just for your subcontractors. Imagine your contractors sending it to you, many contractors will use it or their own form of words. Make sure to test your own cash flow, and consider whether you ought to ask to become a monthly repayment trader.

An example letter is on the following pages. This letter should go to all VAT registered subcontractors who you pay for construction operations, whether paid gross or net being subcontractors whose UTR you have verified. ■

How can an employee check their tax code? The Low Income Tax Reform Group has an excellent site **www.litrg.org.uk/tax-guides/employment/how-do-i-check-my-coding-notice** Statistically less than 80% of employees bother to check their PAYE code. It is foolish not to check it. ■

Reverse charge: a letter to send to your subcontractors

Dear XXXXX,

We are writing to you because you are a valued subcontractor of ours who is VAT registered, who provides us with construction services and is paid under the terms of our CIS scheme (gross or net).

We think it is sensible to warn you of major changes to the VAT scheme for construction which HMRC are imposing and which will begin on **1st October 2019**. They will affect the payments we will make to you after that date. It is important that you know and understand the changes and plan for them because they may have large repercussions for your cashflow this autumn.

The published guidance on reverse charge, released by HMRC, can be found at **https://www.gov.uk/government/publications/vat-reverse-charge-for-building-and-construction-services-guidance-note**
It is also useful to look at and understand the published guidance on the CIS scheme which can be found at **https://www.gov.uk/government/publications/construction-industry-scheme-cis-340**

It seems likely that when working as a subcontractor for us the new reverse charge rules will apply to all the applications for payment or invoices that you send to us. This means that after 1st October 2019 when you do £1,000 of standard rated work for us the following will apply:

- You will invoice for £1,000 showing your supply as standard rated but **not** adding the £200 VAT to the amount due from us.
- We will pay £1,000 (not £1,200 as now).
- Our VAT return will show £1,000 plus £200 VAT as both an input and an output. We will therefore gain no VAT advantage from the change.
- Because you have not been paid £200 VAT by us, you will not owe HMRC £200 VAT.
- If you buy substantial materials used in subcontracted work, you may need to speak to your accountants to decide whether you should ask to send in monthly VAT returns in order to recover the VAT you have spent on materials each month rather than wait for a quarterly repayment.
- If you do some work for end consumers like domestic customers, or for customers who are not VAT registered or not CIS registered, you will bill them the VAT as now. The new rules only affect supplies you make to firms who are not the final user of the building or structure and who are VAT registered. It is therefore sensible from now on to keep a record of your customers' VAT numbers and ask them whether they include the payments they make to you on a CIS return (i.e. the work is within the CIS scheme and they are CIS registered).

Reverse charge: a letter to send to your subcontractors continued

The change is ahead – you must prepare
If the contractors you work for do not pay you VAT after 1st October 2019 there will be implications for the flow of cash in your business and you **must** check how you can manage these.

For example
Will you have the money to pay your historic VAT bill from the last quarter in the old rules if no VAT is paid to you after 1st October 2019?

Can you afford to pay wages and PAYE if VAT is not flowing through your bank account?

If your services are within the scope of CIS and the reverse charge rules apply, we will not be allowed to pay you VAT after the date of change so you must have prepared to withstand a period when cash flow may be stretched. Your invoices will need to be in a new format that does not add VAT to the total due. If you invoice for VAT after that date we will return the invoice which will delay payment. Be prepared.

Transition
The cut over date is 1st October 2019. Invoices dated up till 30 September 2019 will request VAT and can be paid with VAT. Invoices dated on 1 October 2019 and after will not show VAT in the amount payable columns.

Staged or interim payments made after an application for payment when a QS has certified work will be governed by the date the payment is certified. So staged or interim payments certified up to or on 30 September 2019 and paid before 1 January 2020 will have VAT added, and you will be responsible for paying that VAT to HMRC. Payments certified on or after 1 October 2019 will not be paid with VAT.

We understand that this is a major change for everyone and will worry you.

- Read the government website.
- Talk to your accountant.
- Plan out how you will pay your bills through the final quarter of 2019 when cash flow will be at its most difficult.
- Redesign your invoices and applications for payment.
- Consider how you will monitor whether your customers are VAT registered and CIS registered.
- Think about whether you will need to be a monthly repayment trader.

Remember that the Government will soon have a dedicated reverse charge website where there will be more information. This letter is intended only to warn you of the change and allow you to make your own preparations. We hope you find it helpful.

Yours faithfully
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