Ellacotts Tax Newsletter – August 2018

Our newsletter this month includes: details of HMRC's proposed points-based penalty system, an outline of changes to the rent-a-room-relief, a few pointers to when Capital Gains Tax may be payable and a strategy to ask a government department to sell property.

Our next newsletter will be published on Thursday, 6th September 2018.

Points based penalties

In the recently published draft clauses that will form the basis of the Budget later this year, HMRC has outlined a significant change to the way they will be levying penalties for late filing breaches under the Making Tax Digital regulations.

Rather than base penalties on each transgression, taxpayers will receive a penalty point per event, and when these penalties reach a certain amount the taxpayers will be required to pay a fixed penalty.

Essentially, if you miss a deadline a point will be given, but a penalty will only be charged when a specified number of points are accrued. According to HMRC, the number of points required for a penalty to be levied depends on the filing frequency of the return.

HMRC is also introducing an amended penalty for deliberately withholding information from HMRC. The changes to this penalty are required to accommodate the new points based regime and ensure that the penalty works as intended. The enacting schedule gives HMRC the power to charge penalties where a taxpayer deliberately withholds information which would enable HMRC to assess their tax liability. These penalties are based on a percentage of the tax due and can be reduced based on the taxpayer's willingness to correct past disclosure.

The new system is similar to that adopted for driving offences. Of course, there is no suggestion that if you gather enough points to pay tax penalties you will then be banned from paying tax…

Changes to rent-a-room relief

A new test is to be added to the qualifying criteria for rent-a-room relief from April 2019.

The test will require that the individual or individuals in receipt of income – the home owner(s) – will need to share occupancy of the residence in question with the individual whose occupation of the furnished accommodation is generating the receipts – the lodger.

In their notes advising this change HMRC says:

Rent-a-room relief provides Income Tax relief for those letting out furnished accommodation. It was introduced in 1992 to encourage individuals to make spare capacity in their homes available for rent. The government intended this to increase the quantity and variety of low-cost rented accommodation, giving more choice to tenants and making it easier for people to move around the country for work.

Rent-a-room relief presently gives relief from Income Tax for up to £7,500 of income to individuals who let furnished accommodation in their only or main residence.

In the last 25 years the housing market has changed significantly. The private rented sector has more than doubled in size, and the emergence and growth of online platforms in particular, have made it easier than ever for those with spare *accommodation* to access a global network of potential occupants.

The objective of this clause is to ensure that rent-a-room relief is better targeted to achieve its objective of incentivising individuals with spare accommodation (that might otherwise go unused) to share their homes.

Ellacotts

When is Capital Gains Tax payable?

Notwithstanding any of the comments that follow, an individual is allowed to make tax-free capital gains of £11,700 during 2018-19.

There are also a number of circumstances when a disposal does not create a taxable gain. These include:

- The sale of personal assets worth less than £6,000.
- Gifts to your spouse or civil partner.
- Gifts to a charity.
- Gains when you cash in ISAs or PEPs.
- Disposal of certain UK government gilts and premium bonds.
- Betting, lottery or pools winnings.
- Any personally owned car.

If you live abroad, you will have to pay tax on gains you make on residential property in the UK even if you are non-resident for tax purposes. You do not pay Capital Gains Tax on other UK assets, for example shares in UK companies, unless you return to the UK within 5 years of leaving.

Even if gains are taxable there may be reliefs you can claim to reduce or defer any Capital Gains Tax that may be due. These reliefs include:

- Entrepreneurs' relief
- Business asset rollover relief
- Incorporation relief
- Gift hold-over relief

Circumstances when these reliefs may be of use include:

- When you sell your business
- When you reinvest the proceeds from a chargeable disposal into a new asset
- When you change a sole trader or partnership business into a limited liability company, and
- If you give away a business asset.

If you are likely to dispose of, or re-organise, any assets in this way please contact us to discuss any Capital Gains Tax implications.

Ask the government to sell property

UK residents can ask for publicly owned land and buildings to be sold if they think that the property is vacant or underused.

You will need to track down the owner of the land and ask for the property to be sold. Your application will not entitle you to purchase the land, the owners may want to consider other offers.

The government department that owns the land will not sell if:

- the land or buildings aren't safe for your proposed use, for example if they're part of a port, army barracks or on a flood plain,
- they have plans for the land, such as for a railway or road,
- the cost of selling wouldn't be good value for the taxpayer, for example if moving to another site would cost more than the value of the property.

Ellacotts

You will receive a letter telling you the result of your application.

Initially, you could contact the Government Property Unit righttocontest@cabinet-office.gsi.gov.uk to start the ball rolling.

Tax Diary August/September 2018

1 August 2018 - Due date for Corporation Tax due for the year ended 31 October 2017.

19 August 2018 - PAYE and NIC deductions due for month ended 5 August 2018. (If you pay your tax electronically the due date is 22 August 2018)

19 August 2018 - Filing deadline for the CIS300 monthly return for the month ended 5 August 2018.

19 August 2018 - CIS tax deducted for the month ended 5 August 2018 is payable by today.

1 September 2018 - Due date for Corporation Tax due for the year ended 30 November 2017.

19 September 2018 - PAYE and NIC deductions due for month ended 5 September 2018. (If you pay your tax electronically the due date is 22 September 2018)

19 September 2018 - Filing deadline for the CIS300 monthly return for the month ended 5 September 2018.

19 September 2018 - CIS tax deducted for the month ended 5 September 2018 is payable by today.