Ellacotts Tax Newsletter – February 2020

Get up to speed with the latest tax news, this month we look at:

- Budget 2020: predictions on the chancellor's tax announcements
- End of year tax planning: Use your allowances before 5 April
- Get ready for the off-payroll IR35 rules coming April 2020
- New Capital Gains Tax rules on the sale of residential property
- Electric cars will be tax-free from April 2020
- Tax changes for overseas landlords with UK property
- Trust registration changes are coming into effect
- Tax returns: 5% penalty for being 30 days late
- HMRC shares bizarre excuses and expense claims on tax returns
- Upcoming Tax Deadlines for 2020

Budget 2020: predictions on Rishi Sunak's tax announcements

The December 2019 General Election meant that the Autumn Budget that was meant to delivered by Sajid Javid, was delayed. The new Chancellor, Rishi Sunak will now deliver his first Post-Brexit Budget on Wednesday 11 March 2020.

In summary, we are expecting that the tax measures in the Conservative Party manifesto will be announced again and confirmation that changes consulted on last year will be put in place.

What will the Chancellor announce in the Budget 2020? We have put together some key tax areas Rishi Sunak may focus on:

IR35 off-payroll workers

Freelancers and contractors working through personal service companies in the public sector were hit with IR35 rules a couple of years ago. These are now scheduled to be rolled-out to those working in the private sector in April 2020.

In January 2020 the government launched a four-week review of the changes to IR35 off-payroll working rules, as the result of mounting criticism about the way these rules will operate. The review is scheduled to conclude by mid-February and therefore we should see an announcement in the Budget. It is unlikely that there will be a significant u-turn but it may limit the range of contractors to whom it will apply or the size of businesses who will be obliged to operate it. The new rules are currently scheduled to apply to 'large and medium-sized businesses' as defined by the Companies Act.

The government will also carry out a further review of the enhanced **CEST tool** designed to assist businesses in checking employment status and public sector bodies' experience of applying the rules since 2017.

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Disguised Remuneration Loan Charge

The loan charge was introduced to collect tax from individuals who had benefited from schemes devised to avoid PAYE and National Insurance. The date that the loan was made to the individual is critical in determining whether the loan charge will apply.

Due to criticism of the loan charge, an independent loan charge review was conducted and published on 20 December. The major change, which will be legislated in the next Finance Act, is that taxpayers who took loans before 9 December 2010 will not now be subject to the loan charge. This was the day when draft legislation was published, alongside a ministerial statement, to make it clear that disguised remuneration arrangements, including loans, would be specifically taxed as earned income. The current legislation, introduced in 2018, applies retrospectively to such loans and will need to be repealed.

Taxpayers who took loans from their employers between 10 December 2010 and 5 April 2016 and who fully disclosed the use of the loan scheme will not be subject to the loan charge if, and only if, HMRC failed to take action because of disclosure. Loans taken out on or after 6 April 2016 and which were still outstanding on 5 April 2019, remain within the loan charge. You can spread the tax charge over three tax years from 2018/19 to 2020/21.

Pensions u-turn for doctors

There have been many stories in the press about GPs and senior hospital doctors refusing to take on extra shifts due to the additional tax they are required to pay on the extra pension contributions paid by the NHS. Rumours are circulating that the tapering of the annual pension allowance for those with income over £150,000 may be abolished or amended for all taxpayers, not just those working in the NHS. Will Rishi Sunak announce this in the Spring Budget 2020? If he does, it could come with other changes to pension tax relief.

Inheritance Tax (IHT)

Another announcement to listen out for in the Spring Budget 2020 is whether the Chancellor acts on the recommendations of the Office of Tax Simplification (OTS) regarding Inheritance Tax (IHT). One recommendation suggested simplifying IHT by reducing the period of exemption of lifetime gifts from 7 to 5 years. The donor would therefore only have to survive for 5 years following a gift for the transfer to be exempt from IHT.

Business Property Relief (BPR)

The OTS also suggested that the conditions for Business Property Relief (BPR) might be tightened up by aligning the rules with the definition of a trading company for Capital Gains Tax (CGT). This relief currently provides 100% relief on the transfer of shares in an unquoted company. The suggested change would mean that more transfers of shares would potentially be liable to Inheritance Tax (IHT). If you are looking to pass on your business, you may wish to undertake a careful review of your plans to ensure you are being tax-efficient.

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Corporation Tax and National Insurance

Boris Johnson had promised in his Conservative Party Manifesto to raise the threshold for National Insurance contributions from £8,632 to £9,500 in 2020-21. The party's ambition is to raise the threshold to £12,500 in line with the Income Tax Personal Allowance.

He also stated that Corporation Tax would remain at 19% instead of reducing to 17% on 1 April 2020 to provide £6 billion funding for the NHS. Businesses would, however, benefit from an increase in the Structures and Buildings Allowance from 2% to 3%. This provides tax relief for the construction or renovation of commercial buildings.

We can help you

We will be sending out our Budget 2020 summary email for everything you need to know about the announcements on the afternoon ofWednesday 11 March. If you would like to receive the summary, please **subscribe to our Tax newsletter on** our website.

In the meantime, if you would like to speak to us about any tax issues, please contact our tax expert **Ann Bibby** on 01295 250401 or email **abibby@ellacotts.co.uk** or **contact us here.**

In the meantime, if you would like to speak to us about any particular point, please contact Ann Bibby on 01295 250401 or abibby@ellacotts.co.uk.

End of year tax planning: Use your allowances before 5 April 2020

The UK tax year ends on 5 April 2020 and so February and March can provide a last-minute chance to save some tax with a bit of careful end of year tax planning. We've put together ways to minimise your tax bill below.

Additional rate taxpayers

If you earn £100,000 or more, your tax-free personal allowance falls by £1 for every £2 you earn over £100,000. Therefore, if you earn £125,000 or more, you will not receive a tax-free personal allowance at all. The additional rate income tax (45%) is also charged on earnings of over £150,000. Pension contributions and moving investments to a lower-rate tax-paying spouse could reduce this liability.

Utilise your spouse's personal allowance

If your spouse is a lower or non-taxpayer, it's possible for them to transfer 20% of their unused personal allowance to their partner which could save up to £250 in tax.
Also, if you have income-producing assets (for example, buy-to-let property or even saving accounts), you could put these in the lower or non-taxpaying spouse's name to lower your overall Income Tax liability. Assets can be passed between spouses without any CGT liabilities.

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Use your Individual Savings Account (ISA) allowance

The tax-efficient ISA allowance for the current tax year is £20,000 per person. Therefore, a married couple can invest £40,000 before the end of the tax year on 5 April. There is no Capital Gains Tax (CGT) and no tax on UK income and no need to declare this on your tax return. If you do not make use of your ISA allowance it cannot be carried forward, so "use or lose it"!
If you would like more information on ISAs please see our **Guide to ISAs.**

Use your tax-free pension allowance

The standard annual pension allowance is £40,000 per person in the current tax year. This is reduced if your income exceeds limits or have taken pension benefits previously. However, if you are a higher-rate or additional rate taxpayer and have enough relevant UK earnings, you can claim the extra tax relief. You can also carry forward any unused annual allowance from the three previous tax years, so long as you were a member of a registered pension scheme.

Save into a pension for your children or grandchildren

Consider saving up to £3,600 into a pension for your spouse, civil partner or a child, even if they have no earnings of their own, to obtain basic rate tax relief on the contributions. Find out more about this in our article on paying into a pension for your children here.

Capital Gains Tax (CGT)

Individuals have an annual CGT allowance that currently enables them to make gains on investments of up to £12,000 free of tax. Any gains in excess of the allowance are charged to CGT at either 10% or 20% with disposals of residential property being taxed at 18% or 28%, depending on the individual's other total taxable income in the year the gain arises. Married couples may be able to use each other's allowances by transferring assets before they are sold.

CGT changes to the disposal residential property from 6 April 2020

From 6 April 2020, we are due to see some significant changes to the CGT regime in respect of the disposal of residential property and a reduction in the reliefs that may be available. Private Residence Relief will be restricted and lettings relief abolished after this date and there will be a requirement to report the capital gain and pay the associated tax due within 30 days of completion.

It is worth considering bringing any sale forward, but with 6 April fast approaching this may not be possible. However, if you are considering gifting a property to a family member, you may wish to do it sooner rather than later to take advantage of current reliefs.
It may also be worth considering selling an asset to crystallise a capital loss before any potential property sale as a means of reducing CGT payable.

Inheritance Tax (IHT)

You may wish to consider using your annual gift allowance of £3,000. Although you can carry this forward for one year, it is then lost if it is unused. You may have an unused gift allowance for 2018/19 which can still be used until 5 April 2020.

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New rules on Inheritance Tax (IHT)

The new 'residence nil-rate band' (RNRB) now enables a 'family home' to be passed wholly or partially tax-free on death to direct descendants. This extra tax-free amount is phased in over four years, initially at £100,000 for 2017/18, rising each year to reach £175,000 each in 2020/21. The RNRB is in addition to an individual's own nil-rate band; currently £325,000 per individual. The rules surrounding the RNRB are complex and the deceased may be entitled to RNRB despite not owning a 'family home' on death.

Tax-efficient investments

The Enterprise Investment Scheme (EIS), Venture Capital Trusts (VCT) and the Seed Enterprise Investment Scheme (SEIS) are worth a thought. EIS investments offer an Income Tax credit and CGT deferral.

Need help with your year-end tax planning?

For more information on personal tax planning, contact Ann Bibby on abibby@ellacotts.co.uk or 01295 250401 or contact us here.

Keep up to date with the latest tax deadlines here.

We have prepared our handy tax rates card for the 2019/20 tax year which you can download here.

IR35: Get ready for the off-payroll rules coming in April 2020

Are you paying your workers via personal service companies or agencies? You will need to operate new procedures from 6 April 2020 as HMRC bring in IR35 rules to the private sector.

How does it affect employees?

The new regime will affect you if you work via your own personal service company (PSC). If you are an off-payroll worker, you should be aware that your clients are likely to investigate the profile of their contractor workforce more closely than before. This will form as part of a general review of compliance, strategy and spend. But the changes could be felt more widely. Anyone supplying personal services via an 'intermediary' could be within the scope of the IR35 rules. An intermediary can be an individual, a partnership, an unincorporated association or a company.

The change could impact you if you supply personal services to large and medium organisations in the private and voluntary sector. If your client is a 'small' business, the rules are unchanged. A 'small' company meets two of the following criteria. Its annual turnover is not more than £10.2 million. It has not more than £5.1 million on its balance sheet. It has 50 or fewer employees. If you contract with an unincorporated organisation, the new rules only apply if its annual turnover is more than £10.2 million.

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Tax implications

Significant tax implications arise. If IR35 applies, the business or agency paying you will calculate a 'deemed payment' based on the fees charged by your PSC. Broadly, this means you are taxed like an employee. You will receive payment after deduction of PAYE and employee National Insurance Contributions (NICs). If you operate via a PSC, the PSC will receive the net amount. You will then receive without further payment of PAYE or NICs. The potential tax advantages of working under such a contract – especially for PSCs – are much reduced.

This is a good time to take stock of your options. Are clients likely to query your employment status? Should you consider restructured work arrangements, or renegotiating fees? If working via a PSC, is it still the best business model? With clients checking that contracts comply with the new rules, employment status for contractors is likely to come under increasing scrutiny across the board.

How do the IR35 rules affect employers?

Under the new rules, responsibility for making the decision as to whether IR35 rules apply passes to the business who uses the service. The key question is whether, if the freelancer's services WEREprovided directly to that business, they would then be regarded as an employee. If you or your client use CEST, HMRC's online employment status check tool, HMRC undertakes to stand by the results if the information provided is accurate, and given in good faith. At present, however, HMRC considers CEST is unable to determine status in 15% of cases, and many commentators consider the failure rate much higher. HMRC is working to improve CEST.

The business will have to give you the reasons for the status decision in a 'Status Determination Statement' (SDS). If your worker disagrees, they can challenge the status determination. You should respond within 45 days, either withdrawing or upholding the decision, again supplying reasons.

HMRC announced on Friday 7 February that the IR35 rules will only apply to payments made for contracts that apply after the 6 April 2020. Previously, the rules would have applied to any payments made on or after 6 April 2020, regardless of when the services were performed.

What does this mean? Organisations will only need to determine whether the rules apply for contracts they plan to continue beyond 6 April 2020. Find out more about these changes here.

Do you need help with the IR35 rules?

Keep up to date with the latest IR35 news here. We would be delighted to talk through your options and the tax consequences. Please get in touch with Ann Bibby on abibby@ellacotts.co.uk or 01295 250401.

Download our free IR35 guide here.

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New Capital Gains Tax rules on the sale of residential property

Are you looking to sell a residential property? From April 2020 you will only have 30 days to pay your Capital Gains Tax (CGT).

The UK Government have decided they want to receive the Capital Gains Tax on residential property sales much sooner. So, the rules have been changed.

From April 2020, if you are a UK resident and dispose of UK residential property, you will need to pay your Capital Gains Tax and submit CGT returns, within 30 days of completion of the sale. For example, if the sale completes on 1 July 2020, the CGT will be due by 30 July 2020. Currently, you have either 10 or 22 months to pay CGT, so this is a big change.

What will happen if you don't pay CGT within 30 days?

There will be penalties and interest charged for failure to do so. HM Revenue & Customs (HMRC) have been communicating the change in rules. Therefore, it will be much harder if you miss the deadline, to successfully appeal against any penalties. Therefore, it's crucial you seek tax support to ensure you comply with the new rules. Ellacotts expert tax team can take the stress away and carry out the CGT return work for you.

The new rules apply to individuals, trustees and personal representatives. There are some exemptions in place with regards to certain sales, for example, the sale of your main residence. Non-UK residents are already within this regime and from 6 April 2019, this was extended to apply to direct and indirect disposals of all UK land (whether or not a gain arises).

What should you do about the CGT changes?

Landlords have faced so many changes over recent years; the restriction to the mortgage interest relief, additional Stamp Duty Land Tax and the new regime for non-UK residents mean that the new payment regime is yet another cash-flow blow.

If you own property and you haven't yet had tax advice to understand how this will impact you and understand the planning options that are available, then Ellacotts would be happy to help. Our tax team specialise in property taxation for landlords and are well placed to advise.

Contact **Ann Bibby** on 01295 250401 or email abibby@ellacotts.co.uk or **contact us here.**

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Electric cars are tax free from April 2020

Changes to the UK's company car tax system will mean drivers choosing a pure electric car pay no benefit-in-kind charges from next year, but will this be enough to see more electric cars on the roads?

From April 2020, there will be no tax on a company car, if it is electric, or a hybrid, if it can travel 130 miles on a charge and emits emissions of less than 51 g/km.

The saving will benefit the company as the business will not have to pay Class 1A National Insurance.

While the zero rate only applies up to 5 April 2021, the Treasury has already set the rates that will apply in the following two years:

- 2021/2022 – 2% and hybrid cars must be capable of 150 miles
- 2022/2023 – 3% and hybrid cars must be capable of 150 miles

However, tax benefits to one side, there are still many practical considerations with electric and hybrid cars. Currently, hybrid cars have a limited range in electric mode. Purely electric cars also have the limitation that you need to plan your route around charging points and they need to be working and available when you turn up, so you don't run out of power.

In addition to this, you need to consider your employees' personal situations. They may not live in a location that enables them to charge their car overnight and have you considered making charging points available at your place of work for your staff and customers.

The company car is very much brushed over in planning conversations with clients now due to the tax bill it creates. Many who still have a company car may not understand the true cost to both them and the business or are very likely to be continuing due to the convenience of it. On the face of it, the practicalities faced by car owners and businesses could be seen to still outweigh the tax savings. The shift in mindset and change of habits is not an easy task when many would argue the technology is still not where it needs to be for them to make the change. Whilst this is a good move from the treasury, it is likely a lot more will need to follow, to make this a sustainable option for business and car owners in the future.

Are you thinking about swapping to an electric car?
If you are considering the benefits you provide your team and the most tax-efficient option for both your business and the individuals, our tax team can explain the options available to you. For more information, contact **Ann Bibby** on 01295 250401 or email **abibby@ellacotts.co.uk**or **contact us here.**

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Tax changes for overseas landlords with UK land and property

If you own a non-resident landlord (NRL) company with property in the UK, you will need to be aware of new tax changes coming in April 2020.

From 6 April 2020, any non-resident landlord (NRL) company with a UK property business will pay Corporation Tax instead of Income Tax on any UK profits made. The 2019/20 tax year will be the last year which the form SA700 will be accepted to file a tax return for a non-resident company. For accounting periods starting 6 April 2020 onwards any non-resident landlord will need to file the Corporation Tax return form CT600 instead.

You should be sent a Company Unique Taxpayer Reference (UTR) before April 2020 and HMRC will automatically register the company for Corporation Tax. If you do not recieve a UTR by 30 June 2020 then you should contact HMRC.

Any UK rental profits will need to be calculated using the Corporation Tax rules and transitional rules.

What do you need to do?

In order to prepare and file the Company Tax Return online, the company will need to find suitable software and register with HMRC online. You will be unable to use HMRC's free filing service to file the tax return.

You need to evaluate your property portfolio and carefully plan any future acquisitions to ensure that available exemptions are utilised and your tax position is optimised. Our Tax and Wealth Planning team have significant expertise in helping landlords with tax planning.

Where you reside and your domicile can dictate the tax regime under which you fall. Specifically, where you reside and your domicile will impact whether you pay any UK tax on your overseas income, gains and estate on death. You should evaluate where you reside and domicile to optimise your tax position.

Contact Ann Bibby on abibby@ellacotts.co.uk or 01295 250401 or fill out our contact form for more information and help on property tax in the UK.

Find more information about taxation relating to property renting in the UK, on the HMRC website.

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Trust registration changes are coming

New rules are coming into effect in 2020 meaning that all express trusts will need to be registered, whether or not they are liable to UK tax. Currently, you only have to register a trust if they have a relevant tax liability including, Income Tax, Capital Gains Tax, Stamp Duty Land Tax and Inheritance Tax.

So, why the changes? It's all part of HMRC's crackdown on money laundering schemes and tax avoidance.

What are express trusts?

Express trusts are generally defined as trusts that have been deliberately created by a settlor, as opposed to being created in other ways, such as through court order or through statute. This description is likely to include discretionary trusts, interest in possession trusts, many types of bare trusts, charitable trusts and employee ownership trusts. At Ellacotts we deal with express trusts frequently.

Existing trusts

As the UK government acknowledges that in order to allow existing trusts the time to register, there will need to be an adequate deadline. It is, therefore, proposing that trusts in existence on 10 March 2020 will have until 31 March 2021 to register.

New trusts created after 1 April 2020

For new trusts set up on or after 1 April 2020, the timings will be much tighter. The UK government is proposing a 30-day deadline for registration for new trusts. The same 30-day deadline will ultimately apply to updates of information – although, as the consultation document notes, the facility to update trust registrations is not currently available.
Around 200,000 trusts are currently within the existing requirements to register, but these new changes could see it expand to an estimated 2 million trusts.

What happens if I don't register my trust?

The trustees may have to pay a penalty if the trust is not registered before the registration deadline.

Do you need advice on your trust?

We have an expert tax team who can advise you on trust issues including whether you will need to register and any tax implications your trust may incur. Speak to our dedicated trusts expert Ann Bibby on abibby@ellacotts.co.uk or 01295 250401 or contact us here.

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Tax returns: 5% penalty for being 30 days late

Did you know that you will be liable to a 5% penalty in addition to interest charges if your tax is paid more than 30 days late?

Now that the 31 January 2020 deadline for filing your 2019/20 Self Assessment tax return has passed, don't forget that HM Revenue & Customs (HMRC) will charge interest at 3.25% on any tax paid late.

In addition to the 3.25% interest charges, if your tax is not paid before the 1 March 2020, HMRC will charge an extra 5% penalty of the tax outstanding at this date.

We have detailed all the fines and penalties for late tax return submissions **here.**

If you are unable to pay your tax, you may be eligible to enter into a Time To Pay arrangement with HMRC. In this case, penalties can be suspended and potentially cancelled if the arrangement is adhered to. We can help you to file this.

Do you need help with your tax return?

In exceptional circumstances, if you have a reasonable excuse as to why your tax return has been filed late, you may be able to appeal against penalty charges. Ellacotts can appeal against these charges on your behalf and we have recently been able to save our clients £1,600.

If you are facing a fine or need help paying your tax or doing your tax return, please contact **Ann Bibby** on 01295 250401 or email abibby@ellacotts.co.uk or **contact us here.**

HMRC take missing the deadline very seriously and will **fine you for every day you are late** completing your Self Assessment tax return. The earlier you get in contact with us means we can file it as soon as possible. This will mean that we can minimise the fines and interest that you could accumulate.

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HMRC shares bizarre excuses and expense claims on tax returns

Vengeful witches and pet hamsters feature in HMRC's list of weirdest unsuccessful excuses and expenses claims from the last decade.

The list includes one taxpayer who claimed their mother-in-law was a witch who had cursed them, hamsters and dogs that had eaten the post and a taxpayer who was up a mountain without internet access.

The top 10 most bizarre excuses and questionable expenses claims for items, in reverse order, are:

- Caravan rental for the Easter weekend
- I was up a mountain in Wales, and couldn't find a post box or get an internet signal
- My dog ate the post…again
- Claiming £4.50 for sausage and chips meal expenses for 250 days
- My hamster ate my post
- I've been cruising around the world in my yacht and only picking up post when I'm on dry land
- Music subscription so I can listen to music while I work
- Pet food for a Shih Tzu 'guard dog'
- DJ was too busy with a party lifestyle – spinning the deck….in a bowls club
- My mother-in-law is a witch and put a curse on me

Commenting on the list, Angela MacDonald, HMRC Director General of Customer Services, said: *"Each year, we try to make it as easy and simple as possible for our customers to complete their tax returns and the majority make the effort to do theirs right and on time. We always offer help to those who have a genuine excuse for not submitting their return on time. It is unfair to the majority of honest taxpayers when others make bogus claims."*

Get help with completing your tax return

If you completed your tax return before the 31 January 2020 deadline then you have nothing to worry about. If you have left it too late and missed the deadline it's important that you **get in touch with us as soon as possible** so we can file it now. HMRC take missing the deadline very seriously and will fine you for every day you are late completing your Self Assessment tax return.

Contact our Tax expert **Ann Bibby** on abibby@ellacotts.co.uk or 01295 250401 for more information on tax returns.

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Important upcoming Tax deadlines

Below are important tax deadlines that you need to be aware of:

1 February 2020 – Corporation tax for the year to 28/02/2019 unless quarterly instalments apply

19 February 2020 – PAYE & NIC deductions, and CIS return and tax, for the month to 5/02/20 (due 22/02 if you pay electronically)

1 March 2020 – Corporation tax payment for the year to 31/5/19 (unless quarterly instalments apply)

2 March 2020 – 5% penalty imposed on 2018/19 income tax, CGT, Class 2 and 4 NIC still unpaid at this date. Find out more here.

11 March 2020 – Spring Budget will be delivered by the Chancellor. What do we think Rishi Sunak may announce?

19 March 2020 – PAYE & NIC deductions and CIS return and tax, for the month to 5/03/20 (due 22/03 if you pay electronically)

1 April 2020 – From April 2020, UK residents who dispose of UK residential property will need to pay Capital Gains Tax (CGT) and submit CGT returns, within 30 days of completion of the sale. For more information on this please read our article here.

1 April 2020 – Any new trusts set up from this date will only have 30 days to register, even when they are not liable to pay tax. We detailed this in our article here.

1 April 2020 – Corporation tax payment for the year to 30/6/20 (unless quarterly instalments apply)

5 April 2020 – End of personal tax year 2019/20. Make sure you use your exemptions and allowances before this date. Find out more here.

6 April 2020 – The Parental Bereavement Leave and Pay Regulations known as Jack's Law, comes into effect. Find out more about PBL here.

6 April 2020 – IR35 Rules extended to private sector contractors and freelancers. Read more here.

19 April 2020 – PAYE & NIC deductions and CIS return and tax, for the month to 5/04/20 (due 22/04 if you pay electronically)

1 October 2020 – VAT domestic reverse charge for building and construction services comes into force. Find out more here.

31 March 2021 – Any trusts in existence before 10 March 2020 will have until this time to register. Read more.

Have any questions on these deadlines?
If you would like any help or advice on any tax issues please contact our specialist Tax and Wealth Planning Partner, **Ann Bibby** on **abibby@ellacotts.co.uk** or 01295 250401 or fill out our **contact form**.

We offer a range of tax services including filing personal tax returns and complex tax planning for business owners, landlords and individuals.