Copson Grandfield
CHARTERED ACCOUNTANTS

NEWSLETTER

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Welcome to the Copson Grandfield Newsletter

VAT Domestic Reverse Charge for Construction Industry – 1st October 2019

As of **October 2019**, those working in the UK's construction industry might have to handle and pay VAT in a different way, following the introduction of the new VAT domestic reverse charge (VDRC) system.

The VAT domestic reverse charge for building and construction services, to give it its full title, is a change in how VAT is handled for certain kinds of construction services in the UK, along with the building and construction materials used directly in those services.

The reverse charge is effectively an extension of the Construction Industry Scheme and applies to transactions between VAT-registered contractors and sub-contractors who are registered for CIS.

The scheme means that those supplying construction services to a VAT-registered customer will no longer have to account for the VAT. Instead, the customer will account for the VAT (that is, it will be considered input tax for them, as if they've made the supply to themselves).

In even simpler terms, for services they provide, sub-contractors will require the contractor employing them to handle and pay the VAT directly to HMRC, for example:

Example: for those affected; after 1st October 2019, when you do £1,000 of standard rated work, the following will occur :

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- You will invoice for £1,000 showing your supply as standard rated but NOT adding the £200 VAT to the amount due.
- You will be paid £1,000 (rather than £1,200, as you would be now)
- The person paying you will then show £1,000, plus £200 VAT as both an input and an output (therefore gaining no advantage from this change)
- Because you have not been paid the £200 VAT, you would no longer owe this to HMRC, it has in effect been paid for you.

Obviously this will have an impact on your businesses cash flow, since you will no longer be paid the VAT element. However that said, the VAT element should always be set aside, since this is technically not yours to spend; you are collecting it on behalf of HMRC.

If you do some work for end consumers like domestic customers, or for customers who are not VAT registered, you will bill them the VAT as you do 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.

HMRC believes that the above will help combat fraud, whereby construction businesses charge VAT for the services they supply but then disappear without paying their VAT bill – essentially taking with them a 5% or 20% additional profit that doesn't belong to them.

By moving the VAT charge down the supply chain, HMRC intends to make this kind of fraud impossible.

We will be holding a free Seminar covering the above on 23 September 2019 at Cleve Rugby Club, starting at 6.30pm. Attendance is essential for those who are likely to be affected.

"Can I pay you after I get my tax refund?"

Staff News

We would like to welcome both **Romy Lewis** & **Soul Parsons** to our Accounts Department.

Also, congratulations to **Helen Coles** in our Tax Team who recently celebrated her 20th year working for Bradley! Helen joined back in the 'AA Accountancy' days, prior to the formation of Copson Grandfield. We all enjoyed a celebratory drink at 'The Grapevine' in Mangotsfield to mark the occasion!

Inheritance Tax Planning

Many of you have spent your lives trying to accumulate a reasonable amount of wealth, firstly to ensure that you can take care of yourselves in your old age, and secondly, so that you can eventually pass some of this wealth onto your children and grandchildren.

Sadly this is not always as easy as it sounds, since many families forget about Inheritance Tax (IHT), and do not realise that there can be serious tax consequences.

Failure to take professional advice can result in a significant proportion of your estate being subject to Inheritance Tax, which is chargeable at 40%, once you have exceeded the Nil Rate Band, currently £325,000.

Not only that, you may wish for your estate to be distributed a certain way upon death, but if you never get round to making that Will, then your assets would be divided under the 'rules of intestacy', which could be completely different to your intentions.

Thankfully, by taking pre-emptive action there are a number of ways to reduce your exposure to IHT, however it is important to remember that each person/ scenario is different, therefore bespoke advice is needed in order to achieve the best outcome for your situation.

If you are worried about IHT, and would like advice on how to minimise your estates exposure to tax; please contact either **Stephen Hull**, or your Portfolio Manager at our offices.

It is never too early to start Inheritance Tax planning.

Electric Vehicles – Benefit in Kind Changes

A few years ago many taxpayers invested in electric and hybrid vehicles in order to take advantage of favorable 'benefit in kind' rates.

For 'benefit in kind' purposes you calculate the 'cash equivalent' by taking the vehicle list price (when new), and multiply it by a percentage based on the CO2 emissions; the lower the CO2, the lower the chargeable percentage.

However, these rates have increased over the years, making electric & lower CO2 vehicles more expensive than they used to be.

Whilst these types of vehicles are still more tax efficient than regular petrol & diesel cars; the incentive to 'go green' is not as appealing as it once was.

However, from **April 2020**; the taxable percentages for electric vehicles will change again, this time also factoring in the 'range' of electric/ hybrid vehicles.

The chargeable % will dramatically decrease for the lowest polluting cars, which have longer ranges, the table below sets out the proposed changes:

CO2 (g/km)	Zero emissions mileage	2019/20	2020/21
0	N/A	16%	2%
1-50	More than 130	16%	2%
1-50	70-129	16%	5%
1-50	40-69	16%	8%
1-50	30-39	16%	12%
1-50	Less than 30	16%	14%
51-64	N/A	19%	15%
55-59	N/A	19%	16%
60-64	N/A	19%	17%
65-69	N/A	19%	18%
70-74	N/A	19%	19%
75	N/A	19%	20%

Therefore if you are considering a company vehicle, it could be beneficial to consider an electric/ hybrid vehicle for your next purchase. Also don't forget that low CO2 vehicles also attract favorable rates for Capital Allowance purposes.

As a side note; **electric vans** are also beginning to become commonplace, with many of the big brands now offering electric variants of popular models.

The cash equivalent/ benefit in kind for a regular (petrol/ diesel) van is currently **£3430** for 2019/20, however only 60% of this is chargeable on an electric van, reducing the cash equivalent to **£2058**.

This % rate is increasing each year, and is set to match regular vans by 22/23, however at present there is still a saving to be made.

PPR & Lettings Relief

When selling your main home, providing it has been your 'Principle Private Residence' throughout the period of ownership, it is typically exempt from Capital Gains Tax.

You may remember that in addition to the 'Actual Occupancy' of a property, there was also a 36 month grace period known as 'Deemed Occupancy', which effectively treated a former PPR as though you were still living there, for up 3 years after vacating the property; thereby reducing any CGT due.

This 36 month period was reformed some years ago, reducing the final period to 18 months, and therefore increasing your exposure to CGT.

However, from **April 2020**, this 18 month grace period will be reduced again, leaving just **9 months** available for most individuals.

Note that this final period remains at 36 months for those who move into care, or for disabled persons.

This will result in larger CGT liabilities for those selling a former home/ PPR.

Not only that; HMRC are also changing another useful tax break, known as '**Lettings Relief'**.

Lettings Relief is currently available on properties that have been your main residence at some point during ownership, and can reduce a chargeable gain by up to £40,000.

At the top rate of CGT (28%) this can save you as much as £11,200 on a property disposal.

Lettings relief was originally introduced in 1980 to ensure people could let out spare rooms within their property without losing the benefit of PPR, but in reality the relief extended much further than this, since it also covered periods when the entire house was let out to a third party.

The proposed changes (also from **April 2020**) will limit the availability of lettings relief, restricting it to those who share occupation of their house with a tenant.

So in essence, taking the relief away from 'regular' landlords. This could prove to be very costly.

Therefore if you are thinking of selling your investment property (providing it was once your primary residence), it might be worthwhile doing so prior to 5th April 2020, since the liability to CGT could increase dramatically after this date.

If you have any queries, or would like to discuss the above in more detail, please do not hesitate to contact either your portfolio manager, or a member of our Personal Tax Team.

Class 2 NIC

Have you checked your National Insurance record recently?

It has been brought to our attention that there is a potential problem between HMRC and the taxpayer in terms of Class 2 National Insurance.

Self-Employed individuals typically pay both **Class 2** & **Class 4 NIC**. Class 4 is based on profits and paid through Self-Assessment, whereas Class 2 is a fixed amount, historically paid via direct debit, outside of the Self-Assessment regime.

The collection of Class 2 changed in **2015**, when it was rolled into the Self-Assessment system.

We have since prepared Tax Returns for long standing Self Employed individuals, and included the Class 2 liability on the forms, only to find that HMRC have not taken the payment; the reason being that the taxpayer never formally registered as Self Employed!

It has since transpired that these individuals never paid Class 2 via direct debit either…

This can have catastrophic consequences, since Class 2 NIC entitles the Self Employed to State Pension, along with other benefits such as Maternity Allowance, and Employment & Support Allowance.

The main concern is that some people could potentially be Self-Employed all of their working life, pay tax, and Class 4 NIC, but then miss out on a full, or any State Pension due to not having enough qualifying years!

In some cases HMRC have allowed taxpayers to repay any shortfall, whereas in others they have argued that the payments are time barred, either forcing a taxpayer to work past their chosen retirement date in order to 'catch up' on the lost years, or suffer a compromised state pension as a result of an administrative oversight.

We suggest that all self-employed individuals make steps to check their qualifying years/ Class 2 history so that we can ensure that you get what you are entitled to in retirement.

"Don't make it look like I cheated on my tax return, make it look like my tax return cheated on me!"

Important Client Seminar

We will be holding a seminar covering the **VAT Domestic Reverse Charge for the Construction Industry (VDRC)**, together with an update on **IR35 and Off-Payroll working in the Private Sector.**

The seminar will be held at **Cleve Rugby Club on Monday 23 September 2019** starting at **6.30pm**. If you would like to attend, please contact either Neil Townsend, or your Portfolio Manager on 0117 956 1067. We look forward to seeing you there.

Redirected Mail

Many clients request that their business mail is sent to us as their agent, however; physically collecting or waiting for redirected mail to arrive can be a pain.

In order to reduce both the cost and inconvenience to you; we aim to adopt a digital approach, enabling you receive your post in a quicker, more efficient manner.

We will open and scan all letters (unless marked 'Private & Confidential') and email these document(s) to you, requesting a read receipt. We will also keep a copy saved in our client folder/ database.

For larger items or official documents, we will contact you to arrange for these items to either be redirected, or left for you to collect in person.

If for any reason you disagree with this approach, please contact our Office Manager (Neil Townsend) so that we can make alternative arrangements.

Accountants are a Joke!

1. What's the difference between a mosquito and an HMRC officer? **One is a bloodsucking parasite, the other is an insect.**
2. What happened when the cat swallowed a coin? **There was money in the kitty**
3. Why did the boy eat his cash? **Because it was his dinner money**
4. How do dinosaurs pay their bills? **With Tyrannosaurus cheques**