BHP Chartered Accountants

Employers' Update

Autumn 2017

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Editor's welcome

Ah September – when the kids are in school again, rush hour is back and my inbox is full of adverts for Christmas menus. But it's far too early for all that as we still have the Autumn Budget to look forward to first. The Spring budget saw HMRC backing down on the starting date for Making Tax Digital and the number of businesses that will be affected, but the work that has gone on behind the scenes to make the MTD project work has carried on regardless. Part of that work is to use employers' payrolls in a more 'real time' way and although Dynamic Coding suggests flowing capes and Super Heroes, it is just a way of collecting tax from different sources from a point that isn't a tax return. Employees will become responsible for checking and managing their tax affairs and payroll operators will be responsible for implementing tax code changes.

HMRC has always relied on employers and contractors to collect tax and National Insurance due on wages and contract payments, but the duties being collected largely related to income or benefits from that employer or contractor. Now in this brave new world, everyone will become their own tax advisor and payroll has become a clearing house for income tax and CIS tax, national insurance, pensions, tax credits, benefits, statutory payments and student loans. Let's hear it for making tax simple!

For further information please contact Christine Robinson christine.robinson@bhp.co.uk

Dynamic coding - RTI comes of age!

Collecting tax in real time is an important part of HMRC's business strategy and from July this year, the Revenue announced that they will be making changes to employees' tax codes in a way that should significantly reduce underpayments at the end of the tax year. The name for this change is **Dynamic Coding**.

A large proportion of changes to a tax code will relate to benefits in kind but other sources of income can also impact on an employee's tax liability and these other sources, and benefits in kind are not currently being picked up until after the tax year end.

Benefits

Dynamic coding relies on HMRC being told that an employee has a new benefit in kind when this happens. If an employer payrolls benefits, the tax will be dealt with outside of coding, but if not, employers only have the ability to tell HMRC about company cars by submitting P46(car) forms each quarter. There is no other facility to report other benefits during the year, other than the employee calling HMRC. So, the Revenue are now actively asking employees to let them know about changes to their benefits and income during the year through their own Tax Account. As this relies on individuals, it is not too much of a stretch to anticipate that in a few years' time, payrolling benefits will become mandatory.

Tax accounts

Everyone, not just those who submit tax returns, can have their own tax account to manage their affairs. At the moment, tax accounts can be used to check tax estimates and tax codes, claim a tax refund, check and manage tax credits, check state pensions, tell HMRC about benefits and changes of address and submit a tax return. More services will be added, going forward. Tax accounts are an important part of HMRC's Making Tax Digital project.

Third party information, tax codes and collecting tax

Information from third parties will also be used to collect tax through the payroll in real time which should mean that where an employee has a pension or another job, only one tax free allowance will be used across all of the different sources of income. Dynamic coding will also be used to pay other debts such as self assessment balancing payments, class 2 NICs debts or tax credit debts, (tax credit debts can only be done with an employee's consent).

HMRC cannot collect more than 50% of an employee's pay as tax, and payroll software settings should be able to manage this automatically.

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Annual conferences, away days and team building weekends

Are these business, rewards for a great job, or a rather good jolly? Ask your employees and you may get different answers, but you need to know the answer.

For a business event, you also need the paperwork behind that answer, to prove the event is not a reward or a holiday, because they are both benefits in kind.

With an annual conference, where you have business seminars, workshops, company announcements, with refreshments during the day and a meal in the evening, you can clearly show the purpose for the event is business, so it is likely that the 'entertaining' is more like subsistence. This sort of event would not be a benefit in kind. The same principle will apply to team away days. Where there is clear evidence that there is a genuine business reason for holding the event, HMRC will generally accept that the event is not employee entertaining.

Issues can arise where lavish or sporting or recreational activities form part of the event. Whilst these activities will not turn the whole event into employee entertaining, you will need sufficient paperwork to support the business element of the expenditure.

You will be able to use the staff entertaining exemption if the event is annual and the staff bbq and Christmas party haven't taken you over the £150 exemption.

Overseas events can be justified on a cost or commercial basis. Keeping good records of the itinerary is essential to show that the event was held for genuine business reasons and is not just a holiday in disguise.

So after all that, if the conclusion is that some or all of the costs are really just employee entertaining you can deal with it through the P11D or by obtaining a PAYE Settlement Agreement.

The tax rules around employee entertaining are complex. HMRC can be particularly stubborn when reviewing employee entertaining costs. This article can only give a general rule of thumb, so if in doubt, please speak to your usual BHP contact.

Food glorious food

Food and drink for employees - Is it a taxable benefit in kind or not?

On the go
If your employees are travelling on business then you can pay for or reimburse their subsistence and meal costs tax free. Do make sure you that you jot down on the receipt or expenses claim the purpose of the business journey. If they have been given a float then make sure the expenses are supported by receipts and the balance of the float is returned or payrolled as salary.
As an alternative to reimbursing actual amounts, you can pay tax free Day Subsistence Allowances. These are set sums HMRC permit you to pay employees who are away from their normal place of work: £5 if employees are away for more than 5 hours £10 for 10 hours and £25 for 15 hours where it is still ongoing at 8pm. To ensure that the allowance is tax free the employee should provide you with a receipt for a meal (food and drink).

Be careful if you are paying Road Haulage Allowances (RHA) as well as Day Subsistence. RHA rates cover breakfast and the evening meal, so you can only pay the £5 Day Subsistence rate if the employee is still out and about. Also, remember that you need a clearance from HMRC to pay RHA rates tax free.

Back at base – meals and lunches
Tea, coffee and biscuits etc are a trivial benefit and not taxable. Food provided for work related training events and seminars is fine too. Meals on site for working late, over lunch or team meetings are generally tax free, provided that all employees could benefit at some point from a free meal. But, if the meeting is off site, the meal becomes a benefit in kind, even if the sole purpose of the meeting is business. Where the meeting is held for business reasons at a site some distance from the place of work, the food and drink may qualify as subsistence if the journey is a business journey.

Food and drink for off-site work socials, big win drinks, well done celebrations, the Friday night curry club etc are regarded as employee entertaining and a benefit in kind.

Our team at BHP can advise you on the complexities of employee entertaining.

For further information please contact Adrian Hulme adrian.hulme@bhp.co.uk

The man in the pub talks about...

Scratched Records

"Got the Revenue coming in tomorrow, looking at our payroll."

"What you doing down the pub then? Passed it all to your accountant?"

"Nah! No need, payroll's all done on the computer, all done in Real Time. Nothing to be worried about."

Wrong. Man in the Pub will find HMRC is unlikely to check the payroll records when they visit, as they will probably have checked out the RTI data back at their offices. So what will happen tomorrow?

Man in the Pub should expect a one to two hour interview, followed by a physical review of his business records, such as expense claims, mileage claims, purchase invoices, petty cash records, payments to consultants, construction industry scheme records, business bank statements, credit card statements, fuel card statements, P11Ds, and lists of vans and cars.

It maybe that Man in the Pub's visit is random or he may have got a visit due to problems with payroll, a history of late PAYE payments, something in his accounts, or even an ex-employee who has something to say.

So HMRC are on the way. Will the Man in the Pub's records be up to their scrutiny? If you have ever wondered about your affairs, start with the premise that whatever you pay for, give or provide to an employee has a tax and NIC consequence.

What does HMRC look for?

Expenses claims, are they supported by attached receipts and invoices? Are they authorised by a manager. Are you paying expenses for personal items, like phone and internet?

Have you got a note of who used the corporate football box? Who you entertained at that meal?

Are you correctly accounting for travel and subsistence costs? What about those offsite employee only meals and the first Friday curry club?

What is going through Petty Cash? Any Directors' lunches, sundry gifts or personal items?

Are credit card purchases all supported with some sort of paperwork? What about those purchases from Amazon and the app store? Have all accidental personal purchases been refunded by the employees?

Has a company car driver mistakenly purchased fuel and not reimbursed the private element?

Have you got a van policy and a checking procedure in place to cover private use of vans?

Have you checked the employment status of contractors and consultants who are being paid gross?

What is in the Directors loan account? Is it overdrawn? Is it being repaid? Have you got dividend vouchers for the dividends paid?

What has happened to those cash floats for travelling or nights out? Have you got receipts to evidence expenditure?

Are mileage claims checked by a manager and contain details of the journey, accurate mileage, who was visited and why?

So what about the payroll? Are there any ghost employees on your payroll? Have you calculated statutory payments correctly? Have you applied the correct level of the minimum wage when employees have had birthdays? Have you made any deductions from pay that could reduce pay for minimum wage purposes? Are all the directors on payroll? Do you have timesheets or records to support working hours?

A lot of mistakes HMRC find are small, but if they get repeated over time the tax will mount up. If an employee should have paid tax and national insurance on something your business will be invited to pay that tax and NIC on their behalf, but on a grossed up basis.

By the time you have received the letter from HMRC it is too late to stop any penalty for mistakes. Even if you realise there has been a mistake and tell HMRC about it at the initial meeting.

BHP can come and carry out a review for you. Either an interview based one, to check if you may have any particular problems that need looking at, or a high level look at records akin to the one that HMRC would carry out.

If you do get the letter BHP can be with you at the inspection or advise you on the type of questions you are likely to face. If you have taken out our professional fees cover then our fees will be taken care of too.

Everything you pay for, give or supply to an employee will have a tax and NIC consequence, often there is nothing to worry about, but the rules are extraordinarily complex.

For further information please contact Adrian Hulme
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Beep Beep!

The new 67 plate is already out and to coincide with new plate day, a lot of car manufacturers have introduced scrappage schemes – Ford, VW, BMW, Vauxhall, Mercedes, Toyota, Renault, Kia and Hyundai to date. They are keen to get us to change our old, not so green cars for something newer and more efficient. So what does this mean if you're an employer considering changes to your company cars?

The headline news has to be the cheaper benefit in kind value for ULEV's (ultra low emission vehicles with less than 75g/km CO_2 emissions). Currently the rates are:

0 – 74 CO_2 g/km	9% - 13% x list price	Plus 3% for diesel
75 – 190 + CO_2 g/km	17% - 37% x list price	Plus 3% for diesel

And the fuel benefit in kind for pure electric cars has been removed completely, where the employer provides the electricity.

Also, ULEVs provided through a salary sacrifice arrangement are not subject to the tax and NIC changes that were brought in for non ULEV salary sacrifice scheme cars, which is good news for those who like the convenience of the 'just add fuel' schemes.

The range of low emission cars is increasing year on year and prices are reflecting this increase in choice.

When considering mileage allowances for company car users, there are some important differences between pure electric cars and hybrids. With a hybrid, an employee can claim advisory fuel rates for business journeys, but because electricity is not considered to be a fuel, these rates cannot be paid tax-free for pure electric cars.

There are other benefits for employers who buy ULEVs such as:

- no Vehicle Excise Duty on zero emission cars costing less than £40,000
- no fuel duty to pay for pure electric cars
- enhanced capital allowance of 100% first year allowance for a new ULEV car until 31.3.18, then 100% first year allowance for cars with 50 CO_2 g/km or less until April 2021
- 100% for ULEV re-charging and re-fuelling infrastructure until 31 March/ 5 April 2019 (CT/ IT)

If you have employees who have bought a pure electric car or a hybrid, you can still pay them the authorised mileage allowance payments of up to 45p per mile for the first 10,000 business miles driven in the tax year, dropping to 25p thereafter. If you don't pay the full 45p/ 25p rate, your employees can still ask HMRC for mileage allowance relief on the balance, though good records should be kept by the employees as HMRC do check claims made.

HMRC have issued a useful factsheet called Tax benefits for ultra low emission vehicles that you can access at http://bit.ly/2w8xghm

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