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Accountants and Chartered Tax Advisors

Tax E-News

Welcome to our monthly newswire. We hope you find this newsletter useful. Please contact us if you would like to discuss any matters further.

August 2020

MORE DETAILS ON HOSPITALITY VAT REDUCTION

When the Chancellor announced a temporary cut in the rate of VAT for the hospitality sector and attractions in his Summer Statement on 8 July there were a number of areas that needed clarification. The reduction applies to supplies made between 15 July 2020 and 12 January 2021. HMRC have now set out more details of which supplies will attract the 5% temporary rate as well as the impact on invoicing, deposits and the flat rate scheme.

WHAT DOES THE 5% TEMPORARY VAT RATE APPLY TO?

The temporary 5% rate applies to the following supplies, but is not an exhaustive list:

- Catering, including hot takeaway food
- Accommodation in hotels, guest houses and similar places
- Tourist attractions such as theme parks, zoos, theatres and cinemas

Note that as far as catering is concerned, the 5% rate only applies to food and non-alcoholic drinks. The 20% rate continues to apply to alcoholic drinks.

Please contact us if you are unsure as to whether the 5% rate applies to any of your supplies.

VAT TREATMENT OF DEPOSITS

It is fairly common, particularly in the summer holidays, to pay a deposit when booking a hotel or self-catering accommodation but how should the deposit be accounted for?

HMRC have confirmed that the hotel has the option of charging VAT according to the 'basic tax point' (dates of the stay) rather than the 'actual tax point' (invoice/payment dates).

For example where the customer paid a non-refundable £300 deposit in February 2020 for a £1000 holiday in Cornwall in August, using the actual tax point, the hotel would account for 20% VAT on the deposit received in February 2020 and 5% on the balance payable after 15 July 2020. The hotel could choose to use the basic tax point rule which would mean that the 5% rate would apply to the entire cost of the stay and make an adjustment for the VAT already accounted for.

Please contact us if you need advice on dealing with the invoicing or accounting for such transactions.

INTERACTION WITH VAT FLAT RATE SCHEME

Small businesses with turnover below £150,000 may join the VAT flat rate scheme which makes their VAT accounting much simpler as they merely pay HMRC a percentage of their VAT inclusive turnover.

The temporary reduction in the rate of VAT from 20% to 5% reduces the flat rate percentages for affected businesses as set out below:

Type of Business	15 July 20 to 12 Jan 2021	From 13 January 2021
Catering services including restaurants and takeaways	4.5	12.5
Hotel or accommodation	0	10.5
Pubs	1	6.5

Note that to use the flat rate percentage for pubs the turnover must be predominantly "wet sales".

SECOND HOME BUYERS AND BUY-TO-LET LANDLORDS WELCOME SDLT CUT

Although the temporary increase in the Stamp Duty Land Tax (SDLT) threshold to £500,000 was aimed at those buying their main residence, it also benefits those buying a second or subsequent property where there is a 3% supplementary charge. Thus, the rate of SDLT on a second home costing up to £500,000 is now 3%. Previously, the rate was 3% up to £125,000, then 5% up to £250,000 and then 8% up to £825,000. So the SDLT on a second home costing £400,000 is now £12,000 compared to £22,000 if the purchase had completed before 8 July 2020.

Note that there are different thresholds and rates of Land and Buildings Transaction Tax for properties located in Scotland and Wales.

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REPORTING PROPERTY GAINS WITHIN 30 DAYS

Since 6 April 2020 where UK residential property is disposed of, the resulting capital gain needs to be reported and the capital gains tax paid within 30 days of completion of the disposal. There have been a number of teething problems with the new online reporting system and HMRC stated that there would be no penalties imposed for late returns, provided the returns were submitted by 31 July 2020. Taxpayers need to obtain a Government Gateway account and apply for a CGT or property reference number to report disposals, although they can authorise their accountant to report the disposals on their behalf.

Currently only the first disposal may be reported using the online reporting system with any subsequent disposals being reported using a paper return. We have been told that the new system will be fully functional shortly.

RUMOURS OF CGT INCREASES

There has been a lot of speculation in the Press that the Chancellor may introduce radical changes to capital gains tax to start to repay the substantial Government borrowings to support businesses and employees affected by the coronavirus pandemic.

It has been suggested that the current £12,300 CGT annual exemption will be reduced and the rates aligned with the rates of income tax. It has also been suggested that the capital gains uplift on death may be abolished following recommendations by the Office of Tax Simplification and the House of Commons Treasury Select Committee.

The Treasury Committee has recently launched a new inquiry called 'Tax after coronavirus'. That inquiry will consider different ways of raising taxes, in particular a thorough review of UK tax reliefs which has also been recommended by the Public Accounts Committee.

The Chancellor has also hinted that there may be radical changes to the way that the self-employed and directors of family companies may be taxed in future.

HIGH INCOME CHILD BENEFIT CHARGES NOT VALID

A recent tax tribunal has ruled against HMRC who were seeking to raise tax assessments for the High Income Child Benefit Charge (HICBC) for earlier years that had not been reported to HMRC. HICBC is a special tax charge that applies where one member of a couple in receipt of child benefit receives income in excess of £50,000 a year. The charge is 1% of the child benefit received for every £100 of income in excess of £50,000 such that where income exceeds £60,000 the child benefit is fully taxed.

The problem is that many taxpayers whose income is taxed under PAYE do not receive a self-assessment tax return and may not be aware of the tax charge.

The taxpayer in this particular case fell into that category but reported and paid the tax when prompted by HMRC. He was then assessed to tax on the child benefit for the three previous years but the court found that HMRC did not have the power to issue those assessments.

CHANGES TO CJRS "FURLOUGH" CLAIMS

Note that for the month of August the Government will continue to pay 80% of employees' regular pay for hours that they are furloughed but will no longer pay the associated employer NICs and pension costs. The government support then reduces to 70% in September and 60% in October. Contact us if you need help with your claims.

DIARY OF MAIN TAX EVENTS

AUGUST / SEPTEMBER 2020

Date	What's Due
1/08	Corporation tax for year to 31/10/19 (unless pay quarterly)
19/08	PAYE & NIC deductions, and CIS return and tax, for month to 5/8/20 (due 22/08 if you pay electronically)
1/09	Corporation tax for year to 30/11/19 (unless pay quarterly)
19/09	PAYE & NIC deductions, and CIS return and tax, for month to 5/9/20 (due 22/09 if you pay electronically)

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