MORGAN REACH | LA REVUE

Business & Tax News

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Childcare- the missing opportunity

Family finances are being stretched at the moment, be it rising heating and fuel bills, food prices on the up, mortgage hikes and the health and social care levy starting to bite. On top of that, for working parents, there may be childcare costs to fork out for as well.

Every penny counts.

That's why HMRC were shocked to find that more than 78% of eligible families have not taken advantage of the Tax-Free Childcare Scheme (TFCS). That equates to £2.8 billion per year of tax-free childcare support not being claimed.

That is over 1 million families missing out on saving childcare costs of up to £2,000 per child per year (£4,000 if the child is disabled)!! Money which could perhaps be better used elsewhere.

HMRC were so shocked by this they commissioned a survey. 50% of those eligible families surveyed were not aware of the TFCS. Out of the remaining 50% a significant number did not think they were eligible or did not understand how the scheme works.

How does it work?

- You open a Tax-Free Childcare account for each child.
- **For every £8 you put into the account, HMRC will add £2** (up to a maximum top up of £2,000/£4,000).
- **It does not have to be you who pays into the account,** it could be your wider family or even friends.
- You need to go back into the account every 3 months to confirm that you are still eligible.
- If you already claim the 30 hours a week free childcare support (12.5 hours in Northern Ireland), you can still use the TFCS for additional support above the 30-hour threshold.

What are the eligibility criteria?

- **Your child must be 11 or under and usually live with you. If your child is disabled then the age limit is 17.** Adopted children are eligible.
- **You must use an approved childcare provider** who is set up to take payments through the TFCS.
- A childcare provider might be a nursery, childminder, nanny, after school club or play scheme.
- You must not be in receipt of working/child/universal tax credits, nor childcare vouchers.
- You and your partner (if you have one), need to earn, on average, at least the national minimum wage/national living wage for at least 16 hours a week, unless you are in receipt of either disability living allowance, personal independence payment, armed forces independence payment or child disability payment (Scotland only).
- **Your total income, or that of your partner, must not exceed £100,000 in the tax year.**
- A 'partner' includes someone who you are living with as if you are married or in a civil partnership.
- **You can claim it if you are employed or self-employed.**
- **You or your partner must have a National Insurance number and at least one of the following:**
  a) British or Irish citizenship.
  b) Settled or pre-settled status, or you have applied and are awaiting a decision.
  c) You have permission to access public funds – your residence card will tell you if you cannot do this.

Tip

If you are in receipt of childcare vouchers, dependent upon the age of your child, the number of children you have and the level of your income, it may be worth switching across to the TFCS. **Please do not hesitate to contact us if you need any help in this respect.**

We want to be together

- Do you control more than one business?
- Are they VAT registered or about to become VAT registered?
- Do they not only trade with unconnected businesses but also between themselves?
- Is there a cash flow problem arising from one of your entities having to charge VAT on a supply of goods or services to another one of your businesses?
- Is there a painful administrative burden, in respect of time and money, having to complete and submit a quarterly VAT return for each business?

If the answer to these questions is in the affirmative, there may be a way to alleviate this problem by forming a VAT Group. Each business could become a member of that Group. You would nominate a member to be the representative for the Group to deal with VAT matters. **For VAT purposes the Group would be regarded as one entity.** The beauty of that is:

a) **The nominated representative would only have to complete and submit one quarterly VAT return for all the members.**
b) With the odd exception, **intra-group supplies between members can be disregarded for VAT**, thereby helping out on the cash flow front.

Although the nominated representative would be responsible for the Returns and paying over any VAT due, ultimately all members within the Group would be joint and severally liable for any debt outstanding to the Crown.

It is not all plain sailing when thinking of opting for a VAT Group. Consideration needs to be given as regards the following:

- The potential location of any overseas establishment which is part of the Group.
- The impact of an overseas member of the Group buying in services to pass on to a UK member.
- The Northern Ireland Protocol.
- Where one or more members make partially exempt VAT supplies.

Tip

If you would like to explore whether a VAT Group is right for your businesses please do not hesitate to contact us.

Property Landlords are you ready?

For many property landlords (PL), completing a self-assessment tax return may soon become a thing of the past. Depending upon your particular circumstances, the last one might be in respect of the year ending 5th April 2024.
On the surface this would seem to be a cause for celebration. The reality is the exact opposite. Why? Because, subject to the PL's situation, they may have to comply with Making Tax Digital (MTD) for Income Tax. This kicks in from as early as 6th April 2024. If you are in a formalised property investment partnership then the deadline date is deferred until 6th April 2025.

- **If caught by MTD, the PL will be required to keep digital records of their rental income and expenses and make quarterly submissions to HMRC, using compatible software. Failure to comply could result in penalties being incurred.**

What circumstance will force a PL to comply?

If the PL has a rental business as at 5th April 2023, then they will need to comply with MTD from 6th April 2024 if their turnover exceeds £10,000 in the 2022/23 tax year.

For example:

Mary has 2 rental properties. One in the UK and the other in France.
Her rental turnover from both of them, for the following tax years, are:

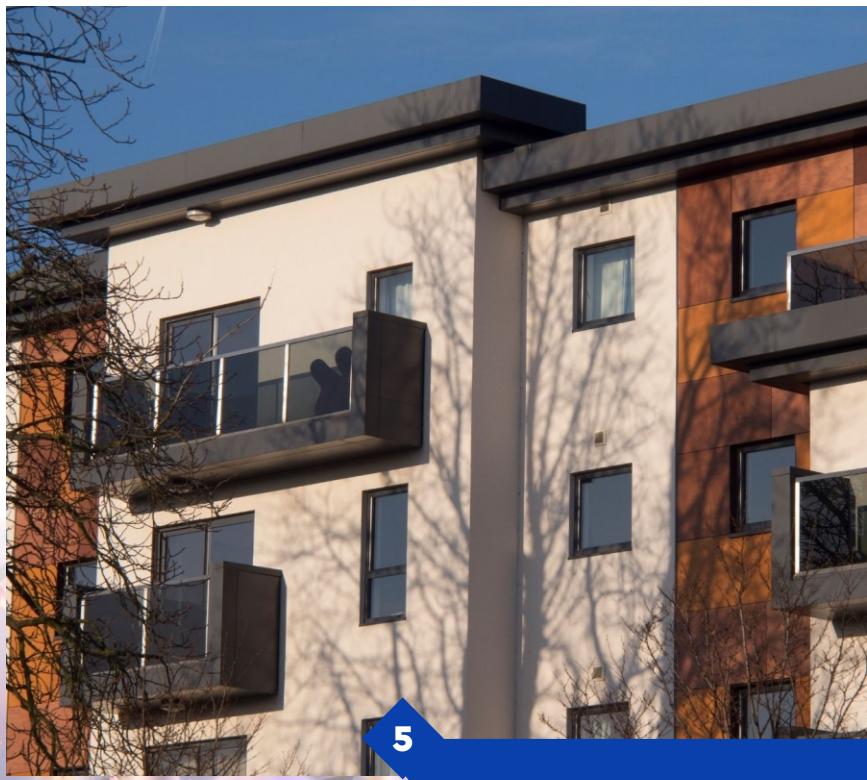
Year ended 5th April 2022 £7,000
Year ending 5th April 2023 £10,500

Mary would need to comply with MTD from 6th April 2024 onwards.

- **If the PL commences a rental business after 5th April 2023, the earliest date they would have to comply with MTD would be from the beginning of the third tax year since it started.**

For example:

Joe commenced his rental business on 6th April 2024.
His rental turnover for the following tax years, are:
Year ending 5th April 2025 £11,000
Year ending 5th April 2026 £12,000



Joe would need to comply with MTD from 6th April 2026 onwards

- **If the PL also has a sole trader business, then they have to aggregate the turnover from both to see if there is a requirement to conform to MTD.**

- However, if the PL is a partner within a partnership, they will not be required to aggregate the turnover.

For example:

Harriet and Henry are partners in a partnership which makes cuddly toys. Harriet also owns 3 rental properties.

Harriet's rental turnover for the year ending 5th April 2023 is £8,000 and her partnership share for the same period is £6,000.

Harriet would not need to comply with MTD from 6th April 2024 as her own rental turnover is not above £10,000.

- **If rental property is jointly owned, but not through a formal partnership arrangement, then one looks at each person's share of the rental turnover** to work out whether that particular individual needs to register for MTD.

- **If there is a formal partnership in place, then it is necessary to look at the total rental turnover.** If that exceeds £10,000, it would be the partnership, not the individual partner that would be required to comply with MTD from as early as 6th April 2025.

- If you are a non-UK resident PL, you may have to follow the MTD regime if the UK rental turnover figure exceeds £10,000.
- **If you run a property investment company, the new rules, at present, do not apply to you.**

Tip

We can help you source the appropriate software, provide the training (if required), register for MTD and deal with the quarterly submissions and end of year submissions, to ensure that you adhere to the MTD rules. Please do not hesitate to contact us.

The Muddied Termination Waters

When employers make an employee redundant and a 'redundancy payment' is made, it is easy to make the wrong decisions on the tax and national insurance (NI) position of such a payment, especially if it is made up of several constituent parts. There has been many a HMRC enquiry further on down the line which has re-evaluated the tax and NI position to the detriment of either the employer or the ex-employee or both.

Termination payments can be broken down into three categories:

- **Fully taxable.**
- **Exempt from tax.**
- **Taxable in part.**

Those which are taxable in full will be:

a) **Contractual payments** – It is stipulated as being payable within the employment contract.

If the employee is asked to work their notice period or is put on garden leave, then any payment is fully taxable.

If under the terms of the contract, the employer can ask the employee not to work their notice, the payment is known as a PILON, payment in lieu of notice. This is fully taxable.

b) **Non-contractual payments where there is a reasonable expectation it will be made.**

For example

Joe is about to be made redundant. Other employees in a similar position to him have been made redundant in the past and received a £5,000 pay out. Joe is expecting a £5,000 payment and receives one.

c) Restrictive covenant payments.

For example

Mary has been made redundant and has received £7,000 from her ex-employer on the basis that she will not approach a client within the next 12 months.

d) Services performed in the past, present or future.

For example

Peter receives £3,000 as part of his termination payment for work finished just prior to being made redundant.

All these payments will be liable to employees' and employers' national insurance.

The following are fully exempt from both tax and NI:

- **Payments into a registered pension scheme.**
- **Outplacement counselling** – perhaps to help deal with the stress of losing one's job.
- **Retraining** - maybe the ex-employer pays for training courses to help build new skills in order to find fresh work.
- **Payments made on the death, injury or disability of the employee.**

What constitutes part taxable part exempt?

a) **Statutory redundancy payments** which employers must pay under employment law.

b) **Non-statutory redundancy or ex gratia payments.** These are ones where the employer is under no legal or contractual obligation to pay. This can include non-cash items, such as a company car transferred across to the ex-employee.

c) **A non-contractual PILON.** The element of the payment which relates to the period which should have been worked, but wasn't, is fully taxable. The residue may be so subject to the £30,000 exemption limit.

Where a) + b) + the residue of c), collectively exceed £30,000, only the excess above that amount is liable to tax. The employee will not suffer any NI but the employer would incur what is called Class1A NI.

Tip

Whether you are the employer or the employee it is wise to review the tax and NI position on any termination payment, preferably before it is paid out, as in some case, the waters surrounding these sorts of payments can become very muddied. We are happy to carry out this review for you.