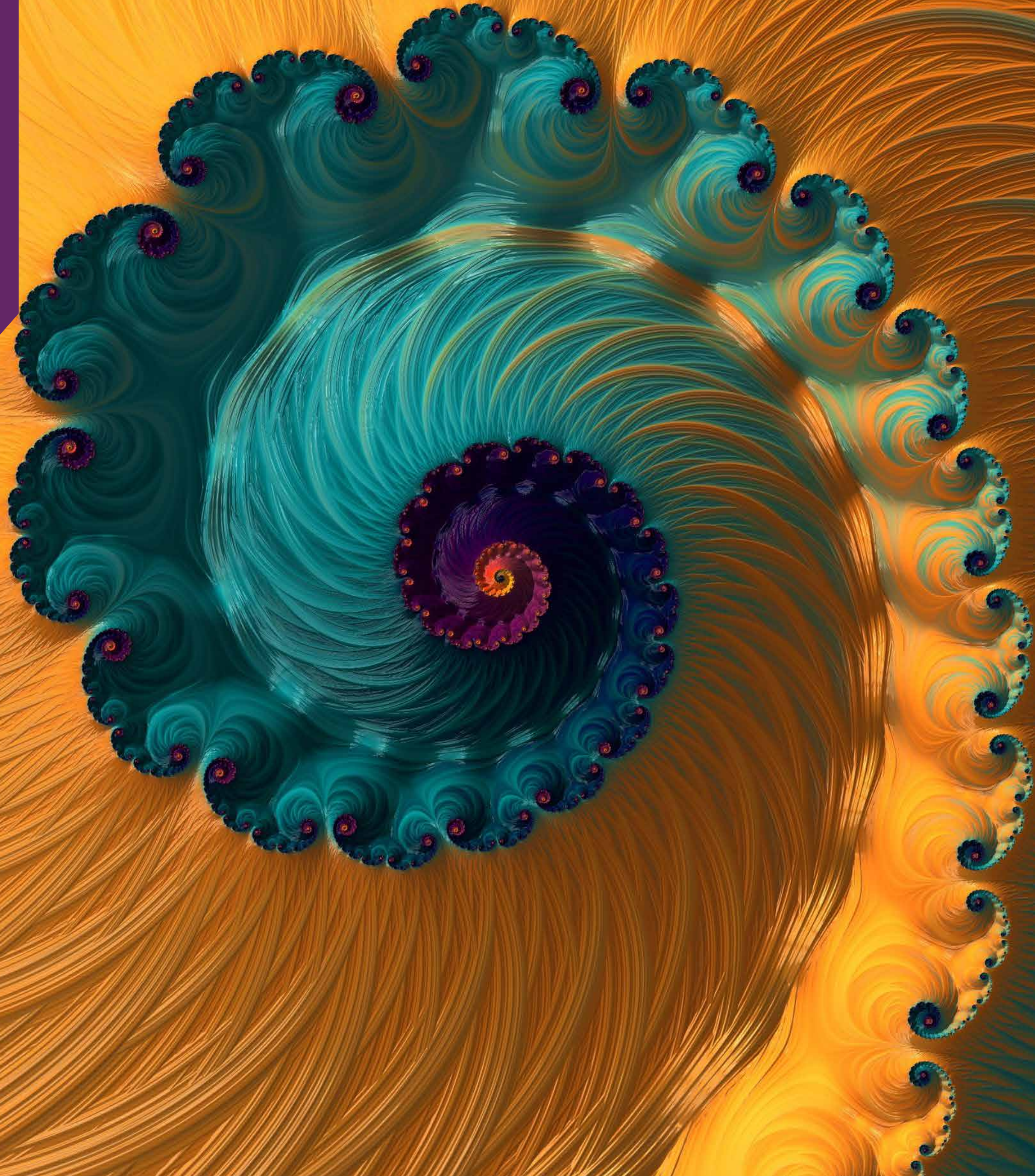


Tax Talk

Simplifying the complexities of Tax

July 2022



Tax Talk: July 2022

Personal Tax

Non-UK tax resident sportspersons and entertainers:
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Landlords and self-employed businesses will need to move to quarterly reporting from April 2024

22
Months to go

If you would like to discuss how these requirements may affect you and what you need to do to ensure you are compliant, contact a member of [our tax team](#) today.

Non-UK tax resident sportspersons and entertainers: the UK tax position

With Glastonbury now over and Wimbledon just begun, entertainment is at the forefront of our screens. The pressure on sport stars and performers is intense, and it isn't just their performance or prize money that's taxable in the UK. Phil Clayton explains.

As with everyone, the UK tax system for sportspersons and entertainers begins with an individual's tax residency position, determined under the UK's Statutory Residence Test (SRT). For more information, see my previous guide: [UK Tax Residency for Individuals](#).

A UK resident individual will, by default, be subject to UK taxes on their worldwide income and gains. Depending on their domicile position, there may be available claims to be taxed on the remittance basis and the option to make an additional claim for Overseas Workdays Relief (OWR) to reduce their exposure to UK taxes.

There are further complications for many in the sport and entertainment world. I'm focusing specifically on non-UK tax resident individuals travelling to the UK for tournaments or events, and present here for only a short period.

UK-specific earnings

Athletes and entertainers receiving specific UK earnings are liable to tax in the UK on these amounts. This is based on income relating to a 'relevant activity'. So this could be a tournament or a concert in the UK.

For example, the record breaking £40 million of prize money that will be distributed at Wimbledon will all be liable to UK taxes on the individuals that are fortunate enough to receive it, regardless of their tax residency position. Similarly, the income Chris Rock & Dave Chappelle receive later in the year for their events at The O2 will be liable to tax here in the UK.

For those affected, even though it's liable to UK tax, the income may also be reportable and taxed in their country of residence. They should check the relevant Double Tax Agreement carefully and claim tax credits where appropriate.

Just like the UK-specific earnings, UK-specific business expenses can usually be claimed to reduce the taxable profit. These might include direct flights to and from the UK, or accommodation throughout the stay in the UK.

The organisations that pay the prize money or fees must review the expected amounts and, should they exceed the personal allowance (£12,570 for 2022/23), withhold basic rate tax at 20% from the payment. On this basis, Wimbledon will likely be paying HMRC over £8 million in respect of the paid-out prize money alone.



Non-UK tax resident sportspersons and entertainers: the UK tax position

Global income

The term 'relevant activity' is not limited to only the UK-specific earnings. Where individuals receive endorsements or sponsorship payments, the proportion relating to their UK activity is also liable to UK taxes.

Certain sporting stars receive sponsorship from a brand and, as part of the sponsorship deal, must wear the brand throughout training and tournaments. For UK tax purposes, the proportion of their time in the UK wearing those brands is deemed UK income and liable to UK taxes. It's worth noting that a sponsorship bonus specifically for winning a UK tournament would be treated as fully UK income and be taxed here.

In some circumstances, it will be important to check the endorsement contract to confirm what exactly could be liable to UK taxes.

Looking at the worldwide endorsement income, HMRC suggests two ways to assess the proportion of the endorsement or sponsorship liable to UK taxes. These are the relevant performance days (RPD) method, or the relevant performance and training days (RPTD) method.

A performance day is a day where an individual is performing in public, for a competition or for training purposes. A training day is three hours or more of activity spent training towards their sport where the public are not watching.

In effect, the calculation apportions the individual's worldwide endorsement income to their UK days, based on their total days performing (and training) in the year.

Where an individual's worldwide endorsement income is being brought into the jurisdiction of UK taxes, so can the apportioned related business expenses be claimed against this income. For example, where an agent charges a 10% fee on the endorsement income earned, a similar RPD or RPTD calculation should be used to apportion this expense against the income.

The UK tax system

Basic rate tax at 20% may be deducted from the direct payments at source. But, if the total UK taxable earnings exceed around £50,000, additional tax will be due to HMRC and that means completing a UK Tax Return.

Regardless of the level of UK earnings it's always a good idea to complete a UK Tax Return to correctly report the income and expenses, including the apportioned endorsement income. That way all UK tax is paid to HMRC.

If an individual receives income in the UK tax year to 5 April, they have until 5 October of that year to register with HMRC. The Tax Return, and any tax payable, is due by 31 January of the following year.

But, as always, there are some exceptions. For example, income relating to the 2012 London Olympic and Paralympic Games was specifically exempt from UK taxes.

What should you do now?

It's key for entertainers, athletes and their agents to be well informed and aware of the UK tax implications of their travels. Ignoring the UK tax consequences and not getting the correct advice can lead to expensive penalties from HMRC.

There can be further complications when the funds are paid into a connected company or other entity instead. These are not covered here.

If you would like advice on any of the issues raised in this article, please contact Phil Clayton.



Phil Clayton
Senior Manager

+44 (0)20 7516 2412
pclayton@pkf-l.com

Landlords and self-employed businesses: getting ready for Making Tax Digital

Sole traders and many landlords will need to move to quarterly digital reporting from April 2024. Find out how to prepare yourself for Making Tax Digital (MTD).



If you are a business registered for VAT, you should already be familiar with the concept of MTD for VAT. If not, do contact our [VAT team](#) for advice on what you need to do to be compliant.

It has long been the Government's intention to extend MTD to landlords and unincorporated businesses (sole traders) for the reporting of income and expenses. The pandemic further delayed its introduction, but there is still a firm commitment to move taxpayers to quarterly digital reporting of rental and business income.

Self-employed businesses and landlords with annual business turnover or gross rents above £10,000 will need to comply with the rules for MTD for Income Tax (MTD for ITSA) from 6 April 2024. There will also be a new late filing penalty regime introduced alongside this.

What does MTD mean for you?

Put simply, MTD for ITSA will require the sole trader or landlord with gross income over £10,000 per year to keep digital records of that income and expenses and submit these to HMRC quarterly.

You will then submit an end of year statement with the final business income or rental at the end of the tax year. This statement must include any accounting adjustments required, along with tax reliefs and other adjustments, and a confirmation that the information is complete and correct.

As a sole trader or landlord within MTD for ITSA you should not need to file a Self Assessment Tax Return. Instead, you'll complete a final declaration, which will confirm any personal income, and submit claims for reliefs.

You'll need specific software to keep these digital records and prepare your submissions. HMRC won't provide it, but has a list of software providers that meet their requirements. This list will be reviewed and updated as more providers come on board ahead of the proposed April 2024 date.

What isn't yet certain is how well HMRC's system, and which providers, will be able to cope with the final annual declaration for taxpayers who have more complex tax affairs and multiple other sources of income or international aspects.

But April 2024 is nearly two years away, so why should you worry about this now?

Landlords and self-employed businesses: getting ready for Making Tax Digital

New rules for basis periods

As part of the move to MTD for ITSA, the Government intends to reform the rules on basis periods for sole traders. This will align sole trader business reporting to the 5 April tax year. If you currently report your sole trader business income and expenses to a year end other than 5 April (or 31 March), you'll need to transition to a 5 April year end from 2024/25. The transition year is 2023/24.

If this affects you, please see our article [Basis period reform: what it means for your business](#) with further details and opportunities for planning in advance of the changes.

Landlord threshold tactics

If you're a landlord whose gross rents are just below the £10,000 threshold, you may wish to review any rental increase above the threshold carefully, the additional costs of complying with MTD for ITSA may outweigh the increased rent. The £10,000 threshold is per landlord, not per property, so it may be worth considering transferring properties into joint names if you are married or in a civil partnership, to split the rents across two landlords.

Get your ducks in a row

Good habits take a while to establish and time moves fast. So it's wise to start thinking now about what records you have for your business or rental, and what you might need to do or change in order to be ready for your first MTD return in summer 2024. HMRC is also launching pilots for taxpayers to help you get used to the system and test it.

New software advantages

Some of the software on the market can bring other benefits. Some enable landlords to easily keep track of their lettings, overdue rents and current property values. Some also keep soft copy documents such as tenancy agreements, gas safety certificates and insurance all in one place.

Find out more

Our team is monitoring both HMRC's progress and that of software providers in rolling out MTD for ITSA. We'll be including regular updates in our Tax Talk newsletter and on our website, to help guide you towards the changes.

If you would like advice on any of the issues raised in this article, please contact Karen Ozen or Vardeep Kular.



Karen Ozen
Associate Director

+44 (0)20 7516 2273
kozen@pkf-l.com

Does your newly introduced “Hybrid Working” policy need to be updated already?



The coronavirus pandemic and the enforced work from home rule that workers and businesses quickly adapted to has caused, what appears to be, a permanent change in the way that many of us now work and expect to work going forward.

The era of “Hybrid Working” is now upon us! Whilst there were some companies who already had well documented policies, processes and infrastructure in place for their employees, other organisations had to move quickly to introduce policies written firmly in the shadow of COVID-19, at a time when particular tax rules had been relaxed by HMRC.

With the pandemic apparently now behind us, certain concessions made by HMRC to help the nation during COVID-19 are being withdrawn or were made on a time limited basis and have now lapsed. Companies may therefore have based their policies for hybrid working around certain tax rules which are no longer applicable and may need to update them to avoid unwelcomed headaches going forward.

Reimbursement of employee home office equipment

One of the most welcome and practical concessions made by HMRC, which lasted up until 5 April 2022, was that employers were able to reimburse employees for the purchase of home office equipment, tax-free, provided that:

- The primary purpose of the equipment was for work purposes.
- The employee was the owner of the equipment (an important point for later on) and;
- There was no requirement for the employee to agree to handing the equipment over to their employer at the end of their employment. Personal use of the equipment was allowed providing this was incidental to the main purpose of the equipment being for work (again an important point to note).

This highly practical step was essential to facilitating the immediate shift to working from home in March 2020. It relieved employers of a logistical and costly nightmare of having to source and provide equipment directly to large numbers of their employees no longer able to work from the office.

The concession lapsed on 5 April 2022 and pre pandemic rules are now back in force. Going forward, Employers who have designed their policies and processes around reimbursing employees for the purchase of essential equipment such as a desk, chair, monitor etc, rather than furnishing their home office **directly** will need to have a rethink.

Employers can still provide equipment to employees directly and the criteria for the tax relief remains the same:

- The main purpose of providing the equipment is for the performance of the employee’s duties and incidental personal use is allowed.

The only time a tax charge will arise in respect of equipment provided directly to the employee is if a transfer of ownership (from the employer to the employee) occurs, most likely at the end of the employment when the cost to the company of collecting the equipment outweighs the cost of the equipment.

Does your newly introduced “Hybrid Working” policy need to be updated already?

From 6 April 2022 employers can no longer reimburse employees for the cost of equipment they have purchased themselves without the employee incurring a charge to tax.

In this scenario the employee effectively owns the equipment so the purchase of it by the company is seen as the employer meeting a “pecuniary liability” of the employee’s. Such payments are treated as additional employment income for the employee.

Any reimbursements of this nature need to be reported via payroll along with normal wages and are subject to the withholding/payment of PAYE income tax and Class 1 National Insurance Contributions.

Tax relief may still be available for the employee, but this has to be claimed directly from HMRC via the self-assessment system. **The important point here is that the employer is obliged to process the transaction through payroll.**

Not only will claiming tax relief be more administratively heavy for employees the real “sting in the tail” is that the criteria on which the tax relief is granted is much stricter for employees making the claim through self-assessment.

When tax relief is claimed directly by the employee it is necessary to be able to satisfy that the expense was incurred “wholly, exclusively and necessarily” for the delivery of their employment duties. This means that there can be no personal use of the equipment at all.

I would be surprised if there were many employees who could honestly say that their home office desk and chair have never been used for anything other than work. An assumption HMRC share when assessing employee claims for tax relief and thus tax relief is unlikely to be given to the majority of employees.

Tax professionals were hopeful that the Covid concessions would endure as the differentiation between whether an employer reimburses an employee the cost of something or provides equipment to them directly is not only unfair to employees in the latter category (due to stricter criteria on which the tax relief is given) but also creates additional costs and has an environmental impact for employers in the purchase and delivery/ collection of the equipment to the employees home.

£6 per week allowance in respect to additional household expenses

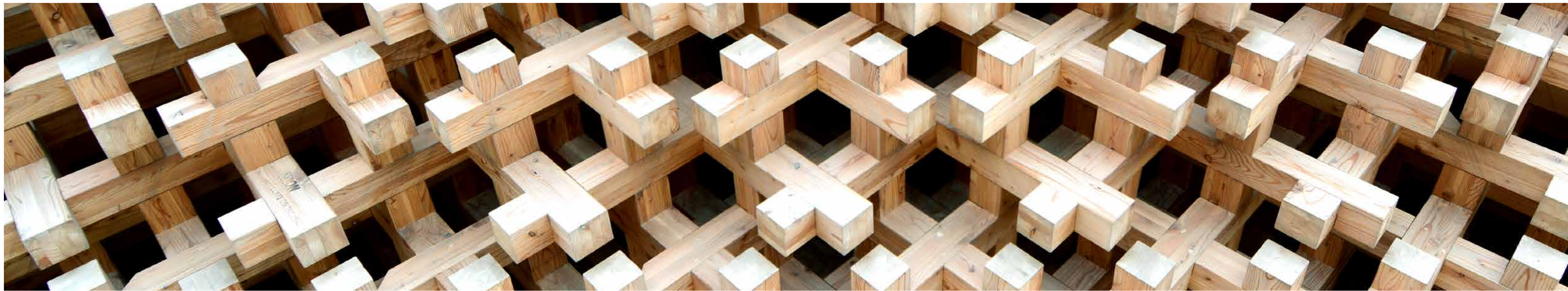
The 2020/21 and 2021/22 tax years saw HMRC make two changes to the existing flat rate allowance that an employer could pay to employees in recognition of the additional household expenses they incurred due to the requirement to work from home without the need to prove/quantify the additional costs.

The rate was raised from £4 to £6 per week, but more importantly, the allowance applied for the whole tax year so long as an employee was required to work just **one day** at home during the tax year.

If an employer did not contribute towards the employees’ additional household costs then an employee could claim up to £6 per week as an employment expense, and receive tax relief on this amount. The employee was entitled to claim tax relief on the annual value of £312 at their marginal tax rate. Tax Relief could either be claimed via the self-assessment system or for those that were not required to file under self-assessment, by submission of form P87 or via their personal tax account.



Does your newly introduced “Hybrid Working” policy need to be updated already?



The concessionary treatment has actually been extended for a further year and will continue to apply for 2022/23.

However

HMRC have reaffirmed the point that the allowance is only payable (by the employer) or due tax relief (if not paid by the employer) when an employee is legally required to work from home. If the employer provides the means to work from an office or other permanent establishment but either the company

permits or the employee decides to work from home it is not considered a legal requirement of the job and tax relief would not be due.

Hybrid working arrangements fundamentally provide employees and employers the ability to choose the working location on any given day (at home or in the office) however what the day-to-day and the legal requirements of the job remain the same.

If an employee partially performs their duties in the office, then the job does not require the employee to work from home (unless there are very specific circumstances) and therefore they would not qualify for tax relief.

With national lockdowns now hopefully behind us, the sole reason that most people were required to work from home no longer applies, however, it is a trend we see continuing. With energy prices continuing to rise and household disposable income dwindling, employees may find the loss of tax relief (however minimal) in respect of household costs difficult to swallow and look to their employer to address the money they have “lost”. It is important to mention that many employees are benefitting from not having to commute to work so frequently thereby saving money so as with everything, there are costs and benefits.

Hybrid working is still a new concept for many businesses and refining a policy that not only works for the company as well as their employees, and is effective from a tax perspective in the longer term, requires regular review and updates.



Daniel Kelly
Senior Manager

+44 (0)20 7516 2461
dkelly@pkf-l.com

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We provide a full range of audit, accountancy, tax and advisory services, and are experts at simplifying complexity – we're particularly well-known for working with large, high-profile businesses with challenging issues in fast-moving and highly technical areas.

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PKF in the UK



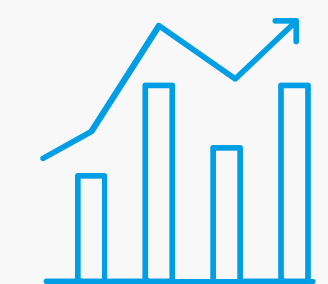
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£182.5 million annual fee income



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Our tax services At a glance

We offer comprehensive tax compliance and advisory services to a range of clients, both in the UK and globally, helping them find their way in the increasingly complex world of tax.

We find practical solutions that we use to our clients' advantage. Our team of experts supports individuals, and businesses ranging from start-ups and SMEs to large international groups, both listed and privately owned.

Where understanding of our clients' sector makes the difference, our experts invest their in-depth industry expertise to provide invaluable support and insights.

"By bringing together the extensive expertise and experience of our tax specialists we can provide a fully rounded service that offers excellent value for money."

We offer the following specialist tax services:



Corporate and business taxes

Our Business Tax team will ensure that you are both tax compliant and efficient.

We provide specialist corporate and business tax advice on both a local and international level, which includes senior accounting officer and large business compliance, transaction services, due diligence, R&D tax relief, employer solutions and global mobility. We also support both the personal and business affairs of partnerships and LLPs.

[Read more](#)



Personal tax and wealth management

Our team will guide you through the complex world of taxes, helping you meet all filing requirements and identifying risks and opportunities to help mitigate tax liabilities.

We advise individuals, the self-employed, partners, trustees and executors with their UK and international tax affairs. Our services include all aspects of tax, including Self Assessment, Capital Gains Tax, Inheritance Tax, property (both residential and commercial), trusts, family wealth and estate planning, residence and domicile issues.

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VAT and Indirect taxes

Our indirect tax team will support you in meeting your VAT compliance objectives and advise you on any VAT issues that your business faces.

We can ensure that your VAT risk is assessed and managed, and that your VAT recovery is optimised. We can also provide advice and compliance services on other indirect taxes, such as Insurance Premium Tax, Customs duty, and Air Passenger Duty.

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Tax disputes

HMRC is increasing the number and scope of tax investigations into both individuals and businesses, covering all aspects of potential underpayments of tax, including offshore investments, personal and corporate Self Assessment Tax Returns, PAYE and NIC compliance and VAT.

If an issue arises, our trusted advisors will match the right specialists with your needs to provide you the necessary support – whether for a routine HMRC enquiry or a more complex investigation.

[Read more](#)



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PKF Littlejohn LLP,
15 Westferry Circus,
Canary Wharf,
London E14 4HD

Tel: +44 (0)20 7516 2200
www.pkf-l.com