Welcome to the March 2017 edition of Tech Business, a new regular newsletter from PKF Littlejohn's Technology team, providing a round-up of the main developments in accounting and general market matters.

Short Term Business Visitors

UK businesses with employees coming to the UK from overseas to work for a short time need to ensure that they're complying with all of the necessary filing requirements and paying tax appropriately. Organisations can either operate PAYE for these employees or agree a Short-Term Business Visitor (STBV) agreement with HMRC. But when can an STBV be used and what obligations does it entail?

Where an employee from an overseas group company comes to work in the UK temporarily for the benefit of a UK company, the UK business will typically have an obligation to operate PAYE on the employee's earnings as the 'host employer'.

Examples of the type of visitors coming to work in the UK in this way are senior management carrying out review or planning visits, sales and pre-sales staff visits assisting with market, customer or partner development and technical and consultancy staff visits assisting with project, training, technical or support issues.

Where certain conditions are met, a UK employer can apply to HMRC not to operate PAYE on the earnings of short-term business visitors using a STBV. An STBV can only be obtained for employees who are:

- Resident in a country with which the UK has a double tax agreement that covers employment income
- Coming to work in the UK for a UK company or a UK branch of an overseas company
- Expected to stay in the UK for 183 days or less in any 12-month period, and where
- The UK company or branch will not ultimately bear the cost of their remuneration.

Historically, HMRC did not insist on an STBV where the conditions were met and the business visitors were in the UK for less than 60 days. However, since the introduction of the Real Time Information (RTI) initiative, it has hardened its stance - in the absence of an agreed STBV, HMRC now requires PAYE to be operated.

An employer that has an STBV is expected to have a reporting system to track the number of days spent by a business visitor working for it in the UK.

Employees are expected to periodically report days spent in the UK on business to a central administrative point. The level of detail that the UK employer needs to provide to HMRC depends upon the number of days that the individual spends in the UK in the tax year.

The necessary information needs to be provided to HMRC by 31 May annually after the end of the tax year. Non-compliance with this legislation and failure to operate PAYE in respect of overseas business visitors can lead to substantial penalties from HMRC. This can often be a technically challenging area, so if you think you may be affected by the rules and have not taken the correct actions, speak to us as soon as possible.

If you have any issues you would like to discuss please contact Jonathan Boyfield on jboyfield@pkf-littlejohn.com or on +44 (0)20 7516 2369

Making Tax Digital

Following a period of consultation, the Making Tax Digital (MTD) proposals from HMRC are expected to go ahead on a phased basis from April 2018. In simplistic terms, MTD will require quarterly tax updating and reporting to HMRC in a prescribed format.

The initiative will be phased in as follows:

5 April 2018	- Most large unincorporated businesses excluding large partnerships
5 April 2019	- Smaller unincorporated business and VAT returns
5 April 2020	- All other tax payers including partnerships and companies

In this month's Spring Budget, the Government announced that smaller unincorporated businesses and landlords with turnover below the VAT threshold (£85,000 for 2017/18) will have their mandated implementation date delayed by one year to 6 April 2019.

Some key outcomes of the consultation were:

- No fundamental changes to the timetable but a relaxation of penalties in the first year
- Confirmation that documentation supporting financial records will not need to be retained digitally
- Ability to keep records on spreadsheets if these comply with MTD requirements
- Extension of the cash basis for unincorporated businesses.

It should be noted that, although it has been confirmed that records can be maintained on spreadsheets under the new system, these will have to be MTD compliant. These protocols are still being designed; HMRC will be asking third party software providers to develop MTD compliant software with a 12 month pilot period from April 2017.

HMRC is committed to ensuring that free basic MTD compliant software will be available, although this will not be supplied by HMRC itself.

MTD will happen and it will affect you and your business. Look out for further articles on the subject over the coming months.

If you have any issues you would like to discuss please contact Catherine Heyes on **cheyes@pkf-littlejohn.com** or on +44 (0)20 7516 2237

VAT

The development of technology is affecting VAT accounting in different ways. Here are three examples:

New business models

The opportunities for developing new business models based upon technology are well documented. Whether the business is exploiting technology to offer taxi booking apps, enabling the letting of property in the 'sharing economy' or in disrupting existing supply chains with the emergence of new peer to peer lending platforms, the VAT implications of these new ways to do business need to be considered. Often the resulting issues can be significant and unexpected. For example, determining if Uber drivers are self-employed service providers or agents of the app provider, is likely to have a significant impact on the business, and needs to be factored in.

B2B supplies of electronically supplied services ("ESS")

VAT legislation places evidential burdens on businesses that provide so-called 'electronically supplied services' (ESS) to other business users. ESS are delivered automatically over the internet and can include digitised products and software. Where an ESS is supplied by a UK business to a customer outside the EU, there may be a requirement to evidence the place in which the service is "used and enjoyed". Where this is wholly or partly in the UK, the VAT rules bring the service within the scope of UK VAT.

We have seen recent instances in which HMRC has challenged suppliers of services to provide evidence that services are not being used and enjoyed in the UK, particularly where the customer is a multi-national bank or insurer, which cannot reclaim VAT incurred in full. We have also seen cases of HMRC officers misinterpreting the type of services supplied and arguing that services are to be classified as ESS when, in fact, they follow the general place of supply rules. Any business concerned about the application of ESS rules should take care to document the nature of their services and seek advice on their compliance obligations.

Future VAT changes for e commerce businesses

The European Commission has published a number of proposals aimed at simplifying the VAT rules for e-commerce businesses. One of the proposed changes for online traders is the introduction of a quarterly VAT return for the VAT due across the whole of the EU, using the online VAT One Stop Shop. There is currently a similar system in place for sales of e-services.

There are also plans to align the VAT rates on e-publications to those on printed publications; the former are taxed at the standard rate, whilst the latter are often taxed at reduced rates, super-reduced rates, or even zero rates.

The VAT rules could be simplified for micro-businesses and start-ups, such as the introduction of a new yearly threshold of €10,000 for online sales. Businesses selling cross-border will be able to continue applying the VAT rules of their home country if they do not exceed this threshold.

Similarly, another new threshold of €100,000 will be introduced to assist SMEs with their VAT obligations. The thresholds could come into force as early as 2018 for e-services, and by 2021 for online goods.

If you have any issues you would like to discuss please contact Nick McChesney on **nmcchesney@pkf-littlejohn.com** or on +44 (0)20 7516 2262

We hope you've found this issue useful. If anyone within your business would like to receive future issues, please send their details to Cathy Brown (cbrown@pkf-littlejohn.com)

Our specialist team is here to help. If you would like advice on any of the issues discussed in this newsletter, please contact one of our Technology team.

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