

Tax Talk

Simplifying the complexities of Tax

November 2020

PKF

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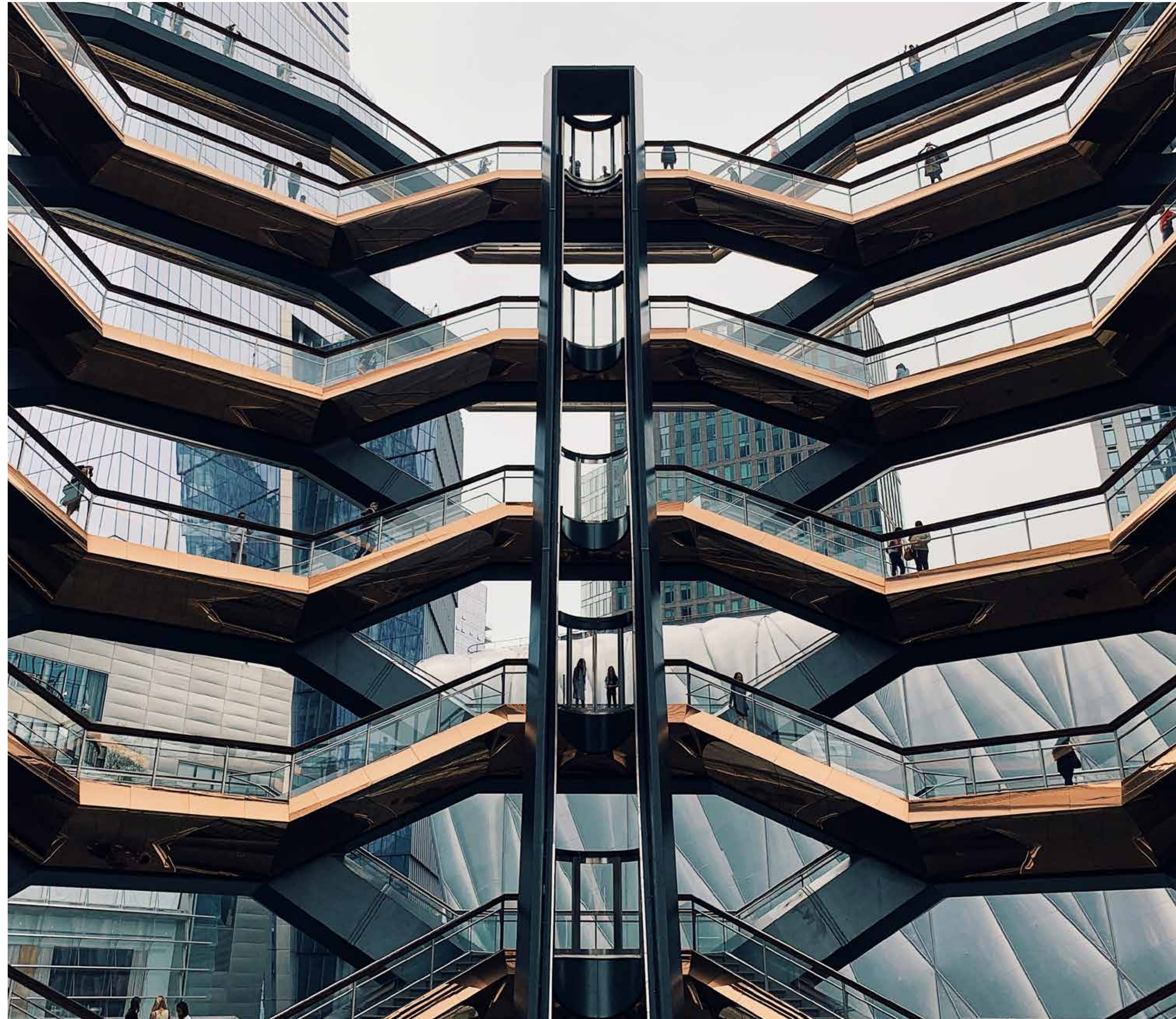
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The Digital Services Tax what it means for you

As we wait for the OECD to establish a universal tax regime, the UK has brought in rules affecting not just global names but many of those whose businesses are linked to digital services groups.

It's a subject widely reported in the press, mainly because it involves a deep sense of injustice. Well-known technology brands are accused of not paying their fair share of tax. It's clear the existing international tax reporting regime is unable to deal adequately with the digital economy.

A move to a system of taxation based on customer location has been on the agenda of the Organisation for Economic Co-operation and Development (OECD) for some time, in discussion with over 100 countries. Meanwhile many European countries are implementing their own digital services tax (DST). In the UK the DST was part of the Finance Bill 2020 and applies retrospectively from 1 April 2020.

Who will be affected?

DST affects businesses that provide a social media service, internet search engine or online marketplace to UK users. It extends to companies or groups with an online service that facilitates any associated online advertising and derives significant benefit from it.

Where an activity is ancillary or incidental to a digital services activity, its revenues may also be subject to DST.

DST will normally be at a rate of 2% charged on UK digital services revenues. Entities can also calculate the liability using an alternative basis. This will benefit those making a loss or operating at a low margin on their UK digital services activity.

The new tax will apply to a group with:

- annual worldwide revenues over £500 million that arise from relevant digital services and
- over £25 million of these revenues being attributable to UK users.

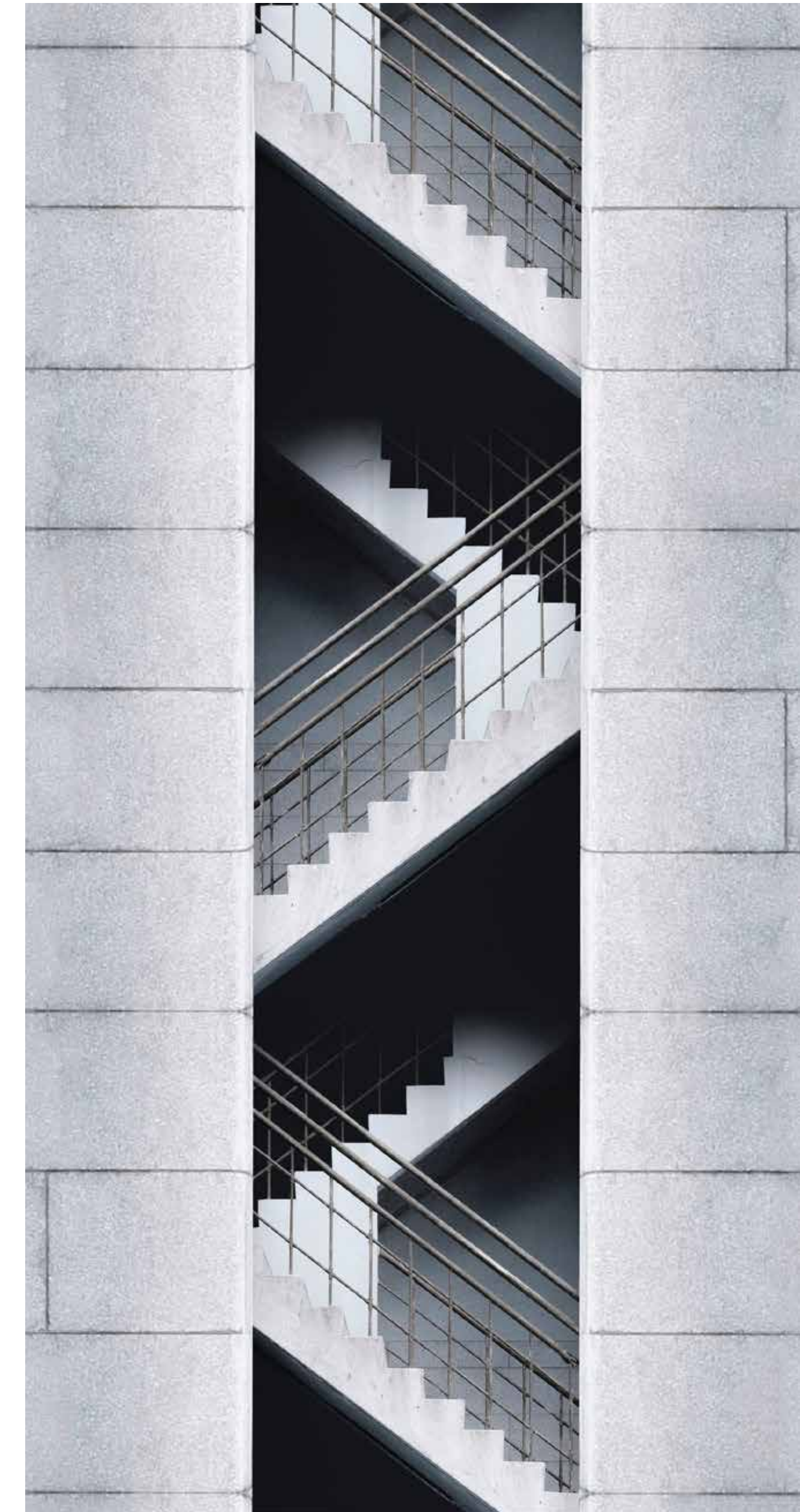
But it's worth noting an exemption for financial services providers, where the first £25 million derived from UK users will not be subject to DST.

DST is payable annually, nine months and one day after the accounting period, by a nominated group company.

1 April 2020



the date from which DST will
be applied retrospectively



The Digital Services Tax what it means for you

Other criteria

Many businesses will carry out numerous activities or services, some constituting the core of the business and others support activities. Some services may be so closely integrated that they are offered to the customer as one package. HMRC says a support activity is only considered an online service if it can operate as a commercially viable service in its own right.

To be liable for DST, an activity must be provided to, or on behalf of, third party users and must generate third party revenues. Services only provided to members of the same group do not apply.

Services that are substantially provided offline will not normally incur DST, unless their online element is significant enough to qualify as an individual service in its own right.

Where services are ancillary or supportive to other services provided by the group, it will depend on whether they are simply a part of a broader service or are distinct from it.

The categories in detail

1. Social media will typically cover:

- Social networking sites
- Professional networking sites
- Micro-blogging platforms
- Video or image sharing platforms
- Online dating websites
- Platforms that primarily exist to share user reviews

Services like online forums or some online games may also be liable. But it will depend on how extensive and important the interaction between users and user generated content is to the service.

Telecommunications networks or private communications platforms like email services are not covered.

2. Internet search engine: an online service whose core purpose is to allow users to search for webpages or information across the internet. But a facility on a website to search the material just on that website will not be affected by DST.

3. Online marketplace: an online service which provides an online market for goods, services and other property by connecting users seeking something with other users who are willing to provide it. The exchange of goods and services between third party users and the facilitation of the sale are central purposes of the online service.

2%



the normal rate at which
DST will be applied



The Digital Services Tax what it means for you

What does 'UK user' really mean?

A UK user is someone normally located in the UK. By 'UK user' the rules usually refer to revenue arising when a UK user has engaged with the service. But there are some exceptions.

Where just one of the parties to a transaction on an online marketplace is a UK user, all the revenues from that transaction are treated as derived from UK users.

When the transaction involves accommodation, land or buildings in the UK, revenue from that transaction is treated as derived from UK users. When the transaction involves accommodation, land or buildings not in the UK, revenue is only liable if the consumer of the service is a UK user.

Advertising revenues count when the advertisement is viewed or otherwise consumed by a UK user.



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How is DST calculated?

The total DST liability is calculated at group level, but the tax is charged on the individual entities in the group whose revenues contribute to the total. The group consists of all entities included in the consolidated accounts, provided these are prepared in accordance with an acceptable accounting standard.

So revenues are counted towards the DST thresholds even if they are from entities without a UK taxable presence for corporation tax.

What about the big tech giants (like Facebook, e-Bay and Google) which DST aims to target? Recent reports claim that Amazon, one of the most well-known online retailers, will not have to pay DST. But, instead, small traders who sell products on its site will face increased charges.

As the charge is not levied on sales, but rather on service fees charged to third parties, the tech giants will doubtless pass the charge on to those third parties.

So it's not always the biggest fish who are affected. If you aren't sure whether the DST will apply to you, our experts can help you.



Has Christmas been cancelled? Other ways of thanking your teams



It's the season when employers would normally be planning the work Christmas do. But in this bizarre year, they may have to find new ways to thank their people.

As 2020 starts to draw to a close and everyday life continues to be disrupted by the coronavirus pandemic, you would be forgiven for thinking that Christmas this year had been cancelled. Whilst the situation is not quite that extreme, for most the traditional employee Christmas party will be a casualty of the crisis.

For many employees, the annual Christmas bash – whether it's a big, all-company black tie affair or simply a team meal – is a highlight of the workplace's social calendar. For employers, it's an opportunity to say thank you to staff for their contributions throughout the year and embed a sense of togetherness across the company.

Providing certain conditions are met, the costs of putting on a Christmas, or other annual, party is usually exempt from income tax and NICs.

With the current restrictions on social gatherings making any form of Christmas function almost impossible, many employers are considering what tax efficient alternatives they can offer employees in order to express their festive goodwill.

Has Christmas been cancelled?

Other ways of thanking your teams

If these were normal times

The costs of providing annual functions for employees are usually exempt from income tax and NICs, so long as all employees (or all employees in a specific office or team location) are invited and where the total cost per person attending is less than £150 (inclusive of VAT).

Companies can organise more than one event for employees provided that both occasions are annual in nature (for example, a summer barbeque and a Christmas party), open to all employees, and that the combined costs do not exceed £150 per attendee (inclusive of VAT) per tax year.

If the combined costs of all annual events do exceed £150, then employers can choose to which event or events the exemption will apply. But the £150 per tax year figure is not an allowance which can be offset against the total costs of all events per employee. It's an exemption for the costs of an event itself, so the costs of that event are either taxable or not taxable on a per employee basis.

For example, if a company organised a summer barbeque for its staff at a cost of £45 per attendee and a Christmas party costing £125 per attendee in the same tax year, then the exemption could apply

to the cost of the Christmas party but the full cost of the summer barbeque would be treated as a taxable benefit.

What are the alternatives to a party?

The option of just paying employees a cash amount would not be tax efficient and is unlikely to be in line with the reward policy of most companies so is not a realistic alternative for most.

The obvious (and realistic) alternative is to delay the 2020 Christmas party and hold it once the country has Covid-19 under control and life starts to have some semblance of normality.

But beware. There's no guarantee of when such a function could be rescheduled, so it may also risk exceeding the £150 limit if it is held in the same tax year as another annual event.

HMRC has given no indication that there will be any relaxation in the annual function exemption.



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Seasonal and tax efficient

So what other exemptions are available which might help employers? Employers can give low value 'gifts' to employees without incurring tax or NICs if they qualify as 'trivial benefits'. The trivial benefit exemption applies when the benefit does not exceed £50 (inclusive of VAT) in value, is not cash or a voucher which can be exchanged for cash, and is not provided under the terms of a contract with the employee nor as a reward or in recognition of the duties the employee performs in their employment.

Employers may therefore provide staff with hampers, bottles of wine, shop vouchers (so long as they cannot be redeemed for cash) or any other gift up to the value of £50 as a Christmas gesture - and the trivial benefit exemption should apply.

It's true that £50 is a lower value than the £150-worth of hospitality an employee might have enjoyed at a Christmas party. But, for many, receiving something in these difficult times will be better than nothing at all. And it will allow employers to make a festive gesture when many aren't able to do so in person because of home-working arrangements.



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Simplifying complexity for our clients



PKF is one of the UK's largest and most successful accountancy brands.

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.

We are also an active member of PKF International, a global network of legally independent accounting firms that gives us an on the ground presence in 150 countries around the world.

PKF in the UK



Ranked 10th in the UK in the latest Accountancy Daily rankings

£140 million annual fee income



2,030 UK partners and staff

7th ranked auditor of listed companies in the UK



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.

[Read more](#)



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.

[Read more](#)



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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