HANLEY & CO
CHARTERED ACCOUNTANTS
AND BUSINESS ADVISORS

TAX TIPS & NEWS
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Welcome...

To our latest 'double size' Tax Tips & News, our newsletter designed to bring you tax tips and news to keep you one step ahead.

We are committed to ensuring none of our clients pay a penny more in tax than is necessary and they receive useful tax and business advice and support throughout the year.

Please contact us for advice in your own circumstances.
We're here to help!

Making Tax Digital Update

VAT-registered **businesses with a taxable turnover above the VAT threshold (£85,000) are required to use the Making Tax Digital (MTD) service** to keep records digitally and use software to submit their VAT returns from 1 April 2019.

The revised timetable for implementing MTD for VAT is now as follows:

April 2019 - MTD mandated for all customers (except those that have been deferred)

Updated guidance

HMRC have published an updated version of their Making Tax Digital 'Myth Busters' factsheet.

The 'myths', and HMRC's comments covered in the factsheet are summarised as follows:

- **Businesses don't know it's happening or what to do:** HMRC state that over 80% of businesses had started to make preparations for MTD by December 2018.

- **Everyone will have to join the service by 1 April:** Businesses are required to join MTD and submit their VAT returns using the new service for their first VAT period which begins on or after 1 April. For the majority, who file quarterly, their first MTD returns won't be due until August or later.

- **Under MTD, businesses will have to provide more information than they already do:** business will need to provide information to HMRC more regularly than they do now.

- **MTD won't reduce errors:** HMRC maintain that the integrated approach offered by MTD will, in the long term, reduce reporting errors.

- **HMRC have underestimated the admin burden and costs to businesses for MTD:** costs will differ from business to business but there are MTD-compatible solutions available at no or low cost for most businesses.

- **Businesses can't use spreadsheets as part of MTD:** Businesses can choose to use spreadsheets to both maintain digital records and perform tax calculations, provided the spreadsheets combine with some form of 'bridging' software that will allow their VAT return data to be sent to HMRC from the spreadsheet.

- **Small businesses should be automatically exempt:** Only those with taxable turnover above the VAT threshold of £85,000 are required to join MTD, although the c.1m VAT registered businesses below the threshold can choose to join voluntarily.

- **HMRC will penalise me if I get the new process wrong:** During the first year of mandation HMRC will take a light touch approach to digital record keeping and filing penalties where businesses are doing their best to comply with the law.

Personal Service Company changes from April 2020

In the Autumn Budget the Chancellor announced that the "off payroll" workers rules that currently apply in the public sector would be rolled out to the private sector in 2020. The Government have now issued a consultation paper that sets out proposed tax and national insurance changes that will impact on those supplying their services through personal service companies.

End users will be required to determine whether the rules apply to the services provided by the worker via his or her personal service company. This will be a significant additional administrative burden on the large and medium-sized businesses who will be required to operate the new rules. The current CEST (Check Employment Status for Tax) online tool would be improved before the proposed start date.

No change for "Small" Employers

"Small" businesses will be outside of the new obligations and services supplied to such organisations will continue to be dealt with under the current IR35 rules with the worker and his or her personal service company effectively self-assessing whether the rules apply to that particular engagement.

The definition of "small" has been widely awaited and the Government have confirmed that it intends to use the existing Companies Act 2006 definition. That is where the business satisfies 2 or more of the following features:

- Annual turnover of £10.2 million or less
- Balance Sheet total of £5.1 million or less
- 50 employees or less

The new obligations to determine whether the rules apply, deduct tax and national insurance, and report payments under RTI will apply to the agency or intermediary making payments to the personal service company where the end user is large or medium-sized. There will be an obligation to pass details of the status determination up and down the labour supply chain.

The liability for tax and national insurance will be the responsibility of the entity paying the personal service company, however if HMRC are unable to collect the tax from that entity the liability will pass up the labour supply chain thus encouraging those entities further up the supply chain to carry out due diligence to police compliance.

Please contact us if you would like to discuss how the proposed changes are likely to impact on your business.

Creating a high-performance organisation

High performance organisations stimulate more effective employee involvement and commitment in order to achieve increased profits, improved productivity and higher levels of customer loyalty.

We are living in uncertain times. The highest performing businesses will, by their very nature, ride out the storm more effectively than their competitors. So how do you create a high-performance organisation?

A truly high-performance business will deliver higher levels of productivity, customer satisfaction, sales and will have increased employee retention.

The backbone of a high performing business is a resilient workforce. You need to build a team that is highly motivated, high performing and consists of people who look forward to coming to work every day because they feel they are a part of the company and the bigger picture.

In addition to hiring the right people, you need to create a culture that allows your team to perform at a high level. It all starts with communication.

You need to communicate the vision, strategy, values and beliefs of your business in order to create a shared purpose. They need to buy into your vision for the company so that they feel invested in its future success.

Next, you need to empower your people. Set their high level objectives and communicate these to each member of your team. Explain how each objective contributes to the overall success of the business.

Now step back and give your people the space to get on with working towards those objectives. Be present and available for when they need to escalate issues. Set regular team meetings but never micro-manage. It is also important to create appropriate reward strategies so that your high performing people feel rewarded for their commitment, and remain motivated.

Remember, perfection is not attainable, not even in the very highest performing organisations.

However, if you aim for perfection, you might just end up a notch below that, which is where a high-performance business should be.

Update on Extracting Profit from the Family Company

The start of the new tax year means that shareholder/ directors may want to review the salary and dividend mix for 2019/20. The £3,000 employment allowance continues to be available to set against the employers national insurance contribution (NIC) liability which means that where the company has not used this allowance it may be set against the employers NIC on directors' salaries. Thus, where the only employees are husband and wife there would generally be no PAYE or employers NIC on a salary up to the £12,500 personal allowance.

There would however still be employees NIC at 12% on the excess over £8,632 (£166 per week) which would be £464 on a £12,500 salary, leaving £12,036 net.

Taxation of Dividend Payments in 2019/20

Traditional advice would then be to extract any additional profits from the company in the form of dividends. Where dividends fall within the basic rate band (now £37,500) the rate continues to be 7.5% after the £2,000 dividend allowance has been used. Thus, where husband and wife are 50:50 shareholders they would each pay £2,663 tax on dividends of £37,500 assuming they have no income other than a £12,500 salary, leaving £34,837 net of tax.

So, a combination of £12,500 salary and £37,500 in dividends would result in £46,873 (93.7%) net of income tax and NICs.

Ensure dividend payments are legal

The Companies Act requires that companies may only pay dividends out of distributable profits. This means that in the absence of brought forward reserves the company would need to provide for 19% corporation tax in order to pay the dividends and thus there would need to be profits of £92,593 in order to pay dividends of £75,000 (after providing corporation tax of £17,593).

Overall the combination of salary and dividends suggested above would result in net of tax take home cash of £93,746 for the couple out of profits before salaries and corporation tax of £117,593 (20.3% overall tax). This still compares very favorably with the amount of tax and NIC payable if the couple were trading as a partnership.

Treasury under pressure to debate increased probate fees 'tax'

In its commentary on the economic and fiscal outlook published alongside details of the Spring Statement, the Office of Budget Responsibility (OBR) has pointed out that the Government has altered its proposed schedule of fees payable for an application for a grant of probate. The new rates take effect from April 2019, and range between £250 and £6,000, depending on the value of the estate.

Prior to the change, bereaved relatives paid a flat £215 fee for probate, the charge for securing legal control over a deceased person's estate. It is estimated that the increase will mean that each year, some 300,000 estates will face larger bills. The charge will rise according to an estate's value, leaving some 56,000 estates having to pay £2,500 to £6,000. The hike in fees represents a 2,700% increase in cost for estates valued over £2m.

The OBR highlighted that, given the structure of the fees, the **Treasury expects the Office for National Statistics (ONS) to classify them as a tax on capital rather than a payment for a service.**

The new probate fee structure is expected to generate £155 million a year in additional tax receipts. There will be a small knock-on effect to inheritance tax receipts due to the incentive for individuals with estates worth close to thresholds in the new probate fee structure to reduce the value of their estates (through genuine or contrived means) to pay a lower fee. This effect is expected to be relatively small (around £5 million a year), since the inheritance tax liability itself already provides a significant incentive to reduce the value of estates. The Government has decided to offset the expected yield from probate fees by removing the same amount in 'negative spending' from the Ministry of Justice departmental budget.

The Treasury is now facing calls for the new proposals to be debated as part of the Finance Bill process.

How to raise your prices without losing customers

The cost of running a business goes up every year, but when was the last time you increased your prices?

Many business owners and managers worry that if they were to increase prices, they would lose customers. However, a customer will often be willing to pay a higher price if they feel they are getting value for their money.

A good way to increase your prices can be to bundle products or services together and offer the combined bundle at a price that offers value to the customer. For example, a phone contract might have a higher price but it may include a bundle such as unlimited calls and 20GB of data per month. The key is providing value to the customer.

Find a way to differentiate your offering. Perhaps you could offer new online services to your customers such as an online portal or an app. Maybe you could create faster, more efficient processes so that your customers get a faster, more efficient product or service from your firm, compared to the competition. If you offer something that is seen to be the best in its class, that offers a benefit to your customers, you may be able to increase your prices.

You can test a higher pricing strategy on new customers. Your existing customers might be resistant to a price increase but new clients will be unfamiliar with your pricing so they may accept the higher price if they feel that you offer more value to them than your competitors.

If you do increase prices for your existing customers, you need to communicate well and explain clearly why you had to make the decision to increase your prices. Do your market research to make sure that your pricing isn't completely out of line with competitors. If your business is not significantly different to the nearest competition, you may run the risk of losing clients.

Large sudden jumps in your prices will not go down well. Instead, introduce gradual increases such as 5% or 10% per year, depending on the type of business that you run.

Everyone knows that the cost of doing business goes up each year. If you communicate with your customers, they may be more receptive to small increases.

Possible changes to CGT Private Residence Relief

The Government is currently consulting on important changes to private residence relief that are likely to be introduced from 6 April 2020.

The two possible changes, announced in the Autumn 2018 Budget are:

Firstly, to limit to just 9 months the period prior to disposal that counts as a period of deemed occupation

The second is to limit “letting relief” to periods where the taxpayer is in shared occupation with the tenant.

Final period exemption to be reduced

The final period exemption was for many years three years and was always intended cover situations where the taxpayer was “bridging” and waiting to sell their previous residence. However, 36 months was felt to be too generous and was allegedly being abused by a strategy known as “second home flipping”. As a result, the final period relief was restricted to the current 18 month period of deemed occupation a couple of years ago. The latest proposal is to restrict still further to 9 months although it will remain at 36 months for those with a disability, and those in or moving into care.

Possible Lettings Relief Changes

Lettings relief currently provides a further exemption for capital gains of up to £40,000 per property owner. The additional relief was introduced in 1980 to ensure people could let out spare rooms within their property on a casual basis without losing the benefit of PRR, for example where there are a number of lodgers sharing the property with the owner.

In practice lettings relief extends much further than the original policy intention and also benefits those who let out a whole dwelling that has at some stage been their main residence. It is those situations that the government appear to be attacking under the proposed changes.

Note that those who are renting their property temporarily whilst working elsewhere in the UK or working abroad are unlikely to be affected by this change as there are alternative reliefs available under those circumstances.

Please check with us if you are likely to be affected by the proposed changes as it may be worth considering disposing of the property before the new rules are introduced from 6 April 2020.

VAT Flat rate scheme

The VAT flat rate scheme (FRS) is used by many small businesses to help simplify their VAT reporting obligations, although some VAT experts would argue that the scheme is not simple to use.

Broadly, the FRS is a simplified VAT accounting scheme for small businesses, which **allows users to calculate VAT using a flat rate percentage by reference to their particular trade sector**. When using the FRS, the business ignores VAT incurred on purchases when reporting VAT payable, with the exception of capital items which cost £2,000 or more. If the business incurs few expenses, and it operates in a sector with a relatively low FRS percentage, it will pay out less VAT to HMRC under the FRS than it would outside the scheme. Historically, many businesses have registered for VAT voluntarily before their turnover reached the VAT registration threshold, so they could make use of the cash advantage offered under the FRS.

Common percentages used by service-related businesses in recent years include:

- Accountancy and legal services 14.5%
- Computer or IT consultancy 14.5%
- Estate agents and property management 12%
- Management consultancy 14%
- Business services not listed elsewhere 12%

Since 1 April 2017, a new 16.5% FRS rate has applied for businesses with limited costs (see below). Since the rate of 16.5% of gross turnover equates to 19.8% of the net, the result is that there will be almost no credit for VAT incurred on purchases.

A 'limited cost' business is defined as one whose VAT inclusive expenditure on goods is either:

- less than 2% of their VAT inclusive turnover in a prescribed accounting period;
- greater than 2% of their VAT inclusive turnover but less than £1,000 per annum if the prescribed accounting period is one year (if it is not one year, the figure is the relevant proportion of £1,000).

'Goods' for these purposes must be used exclusively for the purpose of the business but exclude the following items:

- capital expenditure goods;
- food or drink for consumption by the flat rate business or its employees;
- vehicles, vehicle parts and fuel (except where the business is one that carries out transport services - for example a taxi business - and uses its own or a leased vehicle to carry out those services).

(These exclusions are part of the test to prevent traders buying either low value everyday items or one off purchases in order to inflate their costs beyond 2%.)

Rent-a-room tax break remains

HMRC's rent-a-room scheme currently allows individuals to receive up to £7,500 of gross income from renting out spare rooms in their only or main home without a liability to tax arising. Broadly, **as long as income is below the annual threshold, it does not need to be reported to HMRC**.

However, the emergence and growth of peer-to-peer online marketplaces and digital platforms (for example Airbnb) has made it significantly easier to advertise rooms and put those with spare accommodation in touch with a national and global network of potential occupants. HMRC are of the opinion that this type of income should not be eligible for rent-a-room relief but should instead be taxed under the normal property business income rules. Consequently, during 2018, HMRC worked on proposals to introduce a 'shared occupancy' test. The test would provide that the individual, or a member of their household, in receipt of income must have a 'shared occupancy', a physical presence for all or part of the period of the rental, with the individual whose occupation of the furnished accommodation is generating receipts.

Although it was intended that this change would take effect from 6 April 2019, the government announced in the Autumn Budget 2018 that, in order to maintain the simplicity of the system, the legislation would not be included in Finance Bill 2018/19. Therefore, the rules currently remain unchanged, and rent-a-room continues to provide a valuable exemption in many cases.

As the legislation stands, in order to qualify under the rent-a-room scheme, the accommodation must be furnished and a lodger can occupy a single room or an entire floor of the house. However, the scheme doesn't apply if the house is converted into separate flats that are rented out. Additionally, the scheme cannot be used if the accommodation is in a UK home which is let whilst the landlord lives abroad.

The rent-a-room tax break does not apply where part of a home is let as an office or other business premises. The relief only covers the circumstance where payments are made for the use of living accommodation.

Finally, it should be noted that the £1,000 property allowance, which was introduced for 2017/18 onwards, generally applies in relation only to income from a property business that is not income under the rent-a-room regime.

Effective multi-tasking

In today’s fast-paced business world, here are some tips to help you to be more effective at multi-tasking.

Over the past 10 years or so businesses have become leaner by reducing employee numbers, focusing on efficiency and increasing the demands on their staff. An increased workload forces us to multitask, which may be effective for a short period of time, but over the long term, can cause stress.

Multi-tasking is not about “piling on the work” to the point of exhaustion. It’s about training the brain to channel energy in an efficient and effective manner so you can accomplish more in less time.

One of the keys to learning how to multitask effectively is actually to slow down, in order to accomplish more.

Set Priorities

Try to think of your brain as a computer. If you are working within multiple programs and have numerous windows open so you can quickly jump from program to program, you may find that your computer crashes a lot, due to the strain. The same thing happens in your brain. When you're performing multiple tasks that require your undivided attention, your brain gets overloaded, as it can only process information from one channel at a time. Therefore, do not multitask if the assignment requires your full attention.

Useful tools

Make lists and write things down. You can't remember everything so having a central to-do list is helpful. If you have a list of items you need to refer to often (such as pricing schedules or keyboard shortcuts) position this next to your phone or computer for quick access. Diarise some "management time" in your calendar each day - this might be a 45 minute slot where you have no meetings and can take stock, look at your to-do list and work through anything that needs your immediate attention.

Shift multitasking to single tasking

Your brain cannot multi-task all the time. So, occasionally, stop multi-tasking and allow yourself to do just one thing for fifteen to twenty minutes. At the end of this "rest period", you'll feel refreshed, alert, and ready to tackle more tasks - and you'll do so with fewer mistakes.

Take regular breaks

Make the most of your breaks – avoid working through lunch and make sure to take a short break in the morning and afternoon. Use your break to walk around the building, sit outside, or do whatever you like for a few minutes to clear your head and give your brain a rest. Taking this time out during the day can actually make you more productive.

Questions and answers

Q. I have realised that I made a mistake on my most recent VAT return. What do I need to do to put things right?

A. You can make adjustments to correct errors on past returns if the error:

- was below the reporting threshold (broadly, less than £10,000, or up to 1% of your box 6 figure (up to a maximum of £50,000);
- was not deliberate; and
- relates to an accounting period that ended less than 4 years ago.

When you submit your next return, add the net value to box 1 for tax due to HMRC, or to box 4 for tax due to you.

Alternatively, you should notify HMRC of the error by submitting form VAT652 to the VAT Error Correction Team. Please contact us to discuss any errors or disclosures as soon as possible.

Make sure you keep good accurate records relating to the adjustment.

Q. I intend to start my own business later this year but have yet to decide whether to trade through a limited company straight away. I will need to make a substantial initial investment in the business, so it is likely that I will make a loss in the first, and maybe even second, year of trading. Is loss relief the same for sole traders and limited companies?

A. There are various advantages and disadvantages of incorporating a business, and taking everything into account, you may come to the conclusion that it would be best to carry on your business as a sole trader in the early years. This situation may be particularly relevant if you envisage making losses in the early years of trading, because you can carry back losses made in the first four years against personal income of the three preceding years, often resulting in a substantial refund of tax becoming due. Loss relief for limited companies will generally be more restrictive in the early years of trading. However, don't miss out on the opportunity of forming a limited company later on when the benefits of company status may be more valuable.

Q. I would like to give my daughter a gift of £5,000 cash. What are the inheritance tax implications of this gift?

A. The inheritance tax (IHT) annual exemption enables a person to give away up to £3,000 per annum free of IHT. In addition, any unused exemptions from the previous year, may be carried forward, although any unused exemptions earlier than a year will be lost. This means that if no gifts have been made in the previous tax year, a person could make an IHT-free gift in the current tax year of £6,000. If the amount exceeded the annual exemption available, it could still remain exempt from IHT if the person making the gift survives seven years.

In addition to the annual exemption, small gifts of up to £250 per year may be made free from IHT. The gift must be an outright gift to any one person each tax year.

Gifts on marriage can also be free of IHT provided that the gift does not exceed set limits. The limits depend on the relationship to the married couple/ civil partners and are as follows:

- Parents - £5,000
- Grandparents, great-grandparents - £2,500
- Bride to groom/ groom to bride/ bride to bride/ groom to groom - £2,500
- Anyone else - £1,000

These exemptions may be combined in certain circumstances to reduce a potentially exempt transfer (PET).

Q. I have some permanent employees and I also pay temporary workers as and when I need extra help. I understand that changes have recently been to the rules concerning payslips. Could you please provide some clarification?

A. Prior to April 2019, employers were only obliged to give payslips to employees. From April 2019, all workers are entitled to receive an itemised payslip. If the worker is not always paid the same amount, you need to include the hours they have worked. This will enable the worker to check they have been paid the right amount and that they have been paid at least the new National Minimum Wage (NMW) rates, effective from 1 April 2019. If you do not currently record the number of hours your staff work, you need to start doing so with immediate effect. In particular, these changes are designed to help gig economy workers and staff who regularly work overtime.

Q. I have been running my own business for several years and my turnover has recently exceeded the VAT registration threshold. I have registered with HMRC and am waiting for my VAT number and certificate. Can I claim back VAT on purchases made by the business before the registration date?

A. There is a time limit for backdating claims for VAT incurred before the effective date of registration. From the date of registration, the time limit is:

- 4 years for goods you still have, or that were used to make other goods you still have;
- 6 months for services.

You can only reclaim VAT on purchases for the business now registered for VAT and they must relate to your 'business purpose'. This means they must relate to VAT taxable goods or services that you supply.

You should reclaim them on your first VAT return and keep records including:

- invoices and receipts;
- a description and purchase dates;
- information about how they relate to your business now.

Q. I inherited my late father's house in March 2018, which I subsequently sold in December the same year. I have never lived in the house. The total value of my father's estate is less than £175,000. Will I have to pay tax on the proceeds of the sale?

A. For tax purposes you will inherit the house at the market value at the date your father died - the probate value. If there has been no increase in value between the date of death and the date of sale, there will be no capital gains tax to pay on the disposal of the house.

Since the total value of your father's estate is less than £175,000, then assuming that he did not make any gifts in the seven years before his death, there will be no inheritance tax payable on the estate.

Need Help?

Please contact us if we can help you with these or any other tax or accounts matters.

We are committed to ensuring that all clients receive useful tax and business advice and ongoing support throughout the year. If you have a business problem (or opportunity) to discuss please call us.

In addition, if there's anyone else who you think would benefit from the newsletter, please forward the email to them or ask them to contact us to be added to the newsletter list.

New Clients Welcome

If you are not already a client of Hanley & Co we would be delighted to hear from you. You may be setting up in business or considering changing your accountants.

We offer all potential new clients a Free Unlimited Initial Consultation - with Absolutely No Commitment. We feel sure you will also benefit from receiving our free 'New Business Kit'. Please contact us to request your copy now.

About Us

Hanley & Co provide personal advice to all clients based on over twenty years' experience as practising accountants. We have clients across the North West of England and some even further a-field.

Visit our website http://www.hanleyandco.co.uk for more information.

'HANLEY & CO - ACCOUNTANTS YOU CAN TALK TO'

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