

Welcome...

To June's 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 specific circumstances. **We're here to help!**

JUNE 2019

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MTD for VAT: guidance updated

HMRC have published an updated version of their guidance for businesses on Making Tax Digital for VAT. In particular, the guidance now includes information on how businesses should deal with petty cash transactions.

Petty cash is traditionally a small amount of cash on hand that covers day to day expenses of a business, such as buying a pint of milk. In some businesses it can be used to describe costs that are not attributable to an individual account in their records. Requiring businesses to record each of these transactions in digital records could be an unreasonable administrative burden for businesses. Therefore, **HMRC will accept that a number of petty cash transactions can be recorded as a single purchase in the digital records of the business**, subject to a monetary limit.

HMRC confirm that the following rule has the force of law:

Where a business uses petty cash to pay for small value items, these do not need to be individually recorded in the digital records. The business can record the total value and the total input tax allowable. This applies to individual purchases with a VAT-inclusive value below £50 and the total value of petty cash transactions recorded in this way cannot exceed a VAT-inclusive value of £500 per entry.

Regarding other areas, HMRC guidance on the turnover test, following the rules when you're exempt, digital links, supplies made by third party agents and supplies received has been updated, and new guidance on the use of supplier statements and charity fundraising events has been added.

Time to bring your bookkeeping system into the 21st century?

Making tax digital (MTD) is now law for all VAT registered businesses with turnover over £85,000. This new law requiring Digital record keeping and filing of VAT returns via the MTD portal came into force on the 1 April 2019. This means change for many businesses but also a huge opportunity.

Do you want to reduce your running costs and streamline your accounting?

There are significant advantages to going "Digital" and we've been working with a large number of our clients to help them streamline the way they keep their bookkeeping and manage their VAT.

Just suppose you:

- Had a system where your bank fed receipts and payments a directly into your accounts on a DAILY basis;
- The system could identify the majority of your transactions automatically analysing them and extracting VAT where applicable;
- The system could tell you day by day how much VAT you owe this quarter;
- You could see your results 'how profitable your business is' every month;
- You could use these figures to talk to us so we can help you monitor your business progress and advise you about saving for tax liabilities and how best to withdraw your profits in the most tax efficient manner.
- You could issue sales invoices and see who owes you money from your smart phone!

There are numerous new and exclusive Digital system for helping business owners comply with the law and to give you:

- A clear picture of your current financial position, in real-time
- Automatic updates that mean you can spend more time doing what you enjoy
- Your accounts are 100% online, so there's no software to install.
- Everything is backed up automatically. Updates are always free and instantly available
- Upfront accounting software costs are eliminated – upgrades, maintenance, system administration costs and server failures are no longer an issue!

If you want to take your business to a new level please contact us for a demonstration. We are confident you are going to love this new way of doing things!

We usually recommend KashFlow which is a low cost but very effective online bookkeeping solution. KashFlow is owned and supported by IRIS Software who supply software to more than 50% of the UK's accountancy practices and whom we have used and trusted for over 20 years. The system integrates perfectly with our own office's systems which means we can save time while looking after your years end accounts. We have well over 100 clients using the KashFlow system with total satisfaction. We can arrange a free trial for any interested clients.

Naturally, we also offer expert support with all the other available systems. Xero, QuickBooks, Sage One, ClearBooks, Pandle, FreeAgent etc.

Some cars only qualify for 6% tax relief now

The latest Finance Act has reduced the tax writing down allowance for motor cars that emit more than 110 grams of CO2 to just 6% on a reducing balance basis from April 2019.

In the case of company cars the vehicle is included in the "special rate" pool which means that even when the car is sold the proceeds are deducted from the pool and the 6% allowance continues until the balance is written off. It may be more advantageous to lease such a vehicle - check with us.

For many of our clients the best solution is actually to own the car personally and claim mileage.

Reporting the issue of shares or options to staff

Gifts and awards of shares in companies, often known as employment related securities (ERS) are commonly used by employers to reward, retain or provide incentives to employees. They can be tax advantaged or non-tax advantaged.

You must notify HMRC of all new ERS schemes including one-off awards or gifts of shares by 6 July following the end of the tax year in question or you may have to pay a penalty.

Once you have registered the share scheme you need to submit an ERS return (or nil return) even if there have been no transactions in the year otherwise the company may be liable to a penalty.

Please contact us if you need assistance dealing with these reporting obligations.

Making use of gift exemptions for IHT

According to a recent survey undertaken on behalf of HMRC, only 25% of people making financial gifts have a working knowledge of inheritance tax (IHT) rules surrounding such payments.

The report entitled [Lifetime Gifting: Reliefs, Exemptions, and Behaviours](#), reveals a significant lack of awareness of the gifting rules, liability for inheritance tax and the risk of making financial gifts without considering tax rules, which can apply for any gifts over £3,000 in value in a given tax year.

The research also revealed that those with potentially smaller estates (below £500,000) appear **to have a limited knowledge of the longer-term reach of inheritance tax**, the seven-year rule or annual limit on gifts.

Gifts

The 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.

If the person making the gift dies within this seven year period, the gift may be taxed on a sliding scale known as 'taper relief'. This means that where the gift was given less than three years before death, tax on the gift is charged at the full rate at 40%, reducing to a taxable rate of 8% if the gift is given six to seven years before death.

With many families facing expensive care costs for family members, it is important to note that there are strict rules on property transactions. While a gift given more than seven years before death is not normally counted towards the value of the estate, this is not true where a gift is subject to a reservation of benefit. This means, for example, if an individual gives away their home to their children and continues to occupy it rent-free, the property is treated as forming part of the individual's estate immediately before their death for IHT purposes.

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).

IHT threshold

The current starting threshold for IHT for a single person is £325,000, and £650,000 for married couples and civil partners, who have the added benefit of the residential nil-rate band giving them an additional £150,000 each of tax-free property-based inheritance as of 6 April 2019. The allowance is set to rise to £175,000 from 6 April 2020.

This additional tax relief is only available when assets are passed on to direct descendants, including children or grandchildren, tax-free after their death. The rules governing the inheritance tax (IHT) nil rate band are complex and will need careful consideration.

You can check your National Insurance record online on the DWP website to see:

- what you've paid, up to the start of the current tax year (6 April 2019)
- any National Insurance credits you've received
- if gaps in contributions or credits mean some years do not count towards your State Pension (they are not 'qualifying years')
- if you can pay voluntary contributions to fill any gaps and how much this will cost

You can check online at any time for a forecast of how much you could get. The service will also confirm when you will reach State Pension age, under the law as it stands.

Note that Government proposes to increase the State Pension age to 68 from 2037.

P11D forms due soon

As set out in the following table employers need to submit details of benefits in kind provided to directors and employees by 6 July 2019. Remember that reimbursed expenses no longer need to be reported where they are incurred wholly, exclusively and necessarily in the performance of the employee's duties. Dispensations from reporting are no longer required.

Remember also that trivial benefits of no more than £50 provided to employees need not be reported.

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 might impact on your business.

Moving into partnership?

A partnership may be a simple trading vehicle enabling two or more people to own and run a business, but there are few practicalities worth considering before making the move.

Whilst there are no legal formalities involved in establishing a partnership, and a partnership may come into existence under an oral agreement, it is advisable that a formal partnership deed is drawn up. This is a legal document that sets out what each partner is responsible for and what he can expect from the business. Many partnerships ask a solicitor to help with the deed, but it is possible for the partners to draw one up themselves. Note that although anyone can enter into a partnership, **partners under the age of 18 cannot be legally bound by the terms of a partnership agreement.**

Unlike limited company status, partners do not have any protection if the partnership fails. If one of the partners resigns, dies, or goes bankrupt, the partnership has to be dissolved, even though the business itself may not need to cease.

Each partner is treated as being individual self-employed taking a share of the partnership profits. The partners generally share the decision-making and management of the business, but each partner is personally responsible for any (and potentially all) debts that the partnership incurs, and each person pays income tax and NICs on his share of the partnership profits.

A partnership must appoint one of the partners (referred to as the 'nominated officer') to complete a partnership tax return each year and submit it to HMRC. This return includes a Partnership Statement, which shows how profits or losses have been divided amongst the partners. The nominated partner is also obliged to provide each partner with a copy of the Partnership Statement to assist them with completing their own personal tax return correctly.

Where a sole trader takes in one or more partners there is a change in business entity for VAT purposes. If the sole trader is VAT registered, the change must be notified to HMRC within 30 days and the existing VAT registration will be cancelled. Alternatively, an application may be made (on form VAT 68) for the VAT registration to be transferred to the partnership. The partnership itself must register if the VAT taxable turnover is more than the VAT registration threshold (currently £85,000).

A limited liability partnership (LLP) structure may be an agreeable compromise in some circumstances - offering both the flexibility of a general partnership and the limited liability protection of a company. LLP partners share costs, risks, and responsibilities of the business. They also take a share of the profits, and pay income tax and NICs on their share of the partnership profits. However, under an LLP agreement, debt will be limited to the amount of money each partner invested in the business and to any personal guarantees given to raise business finance. Since liability is generally restricted to the level of investment, members of LLPs will benefit from a certain level of protection if the business runs into difficulties.

In many cases the use of a small limited company is actually the most effective and safest way to structure your new 'Partnership' business.

If you are considering a new business then amongst other things we will gladly advise you about the options available for your business structure.

Our free 50 page 'New Business Kit' is also available to help with this and many other issues.

Mistakes are opportunities to learn

We can learn more from failure than success.

According to Richard Branson, "One thing is certain in business. You and everyone around you will make mistakes." If we are all spending time making mistakes, it makes sense to learn from them.

Failure is a critical part of building a successful career, and how you handle failure is a big indication of your true potential.

Failures can teach you a lot about yourself, your impact on other people, and how your personal goals and expectations align with those of your firm. For example, losing a key client or customer may be painful, but it probably means you were not giving them the service that they wanted or you were not providing the right

solution for their particular needs. You can view this as a loss or you can use it as an opportunity to better align your product or service offering with the needs of your customers.

If your product or service isn't selling maybe it's because you had a great idea that worked for you but not for your customers. Did you conduct thorough market research the first time around? Next time, make sure your customers want it, they're willing to pay for it, and the value they place on it is enough to make your business grow.

If your business is failing to meet its financial targets, perhaps there is something you can learn about your credit control. Perhaps you could take a fresh look at your pricing model and maybe consider moving some clients to a monthly retainer in order to improve cash flow, while providing your customers with an easier payment method.

If you are personally responsible for a particular failure, don't beat yourself up about it. Instead, be willing to let it go. Accept that a particular project or strategy didn't work out and be willing to start again.

Don't be afraid to bring in some expert help. You can't be an expert at everything - so it's ok to bring in a team of people to help you get it right next time. That said, don't just delegate the problem, be willing to get involved in order to get things right the next time around.

Remember - your greatest weakness lies in giving up. The most certain way to succeed is always to try just one more time!

June questions and answers

Q. If I take my staff away overnight for an off-site daytime business meeting and evening social function, will the costs be tax deductible for corporation tax purposes?



A. The costs will be allowable for the company, but a benefit-in-kind will arise on the social aspect of the trip. It may be possible to obtain HMRC approval that the benefit falls within the exemption for annual parties and similar functions costing no more than £150 per attendee (if the £150 is exceeded, the whole amount is taxable as a benefit).

You may wish to consider structuring the event to take advantage of a wide-ranging and generous tax exemption for work-related training. The term 'work-related training' covers any training course or other activity designed to impart, instil, improve or reinforce any knowledge or skills or personal qualities which is, or is likely to be useful to the employee in performing the duties of any 'relevant employments' or which will qualify or better qualify the employee to undertake any relevant employment or such charitable or voluntary activities which could be undertaken in connection with the 'relevant employment' (ITEPA 2003, s 251(1)).

It may be possible to sandwich the evening 'social' event between actual training, with the evening event designed to be motivational (or achieve some other betterment purpose), but great care is needed here to ensure the costs qualify.

Q. I am in the process of purchasing a new house that I will use as my main residence. I will sell my current main residence as soon as I buy the new house. I also own several other rental properties but I have never lived in any of them. Will I have to pay the higher rate stamp duty land tax (SDLT) charge on my new house?

A. The basic rule is that the higher SDLT rates apply when you buy a residential property (or a part of one) for £40,000 or more, if:

- it will not be the only residential property worth £40,000 or more that you own (or part own) anywhere in the world;
- you have not sold or given away your previous main home;
- no one else has a lease on it which has more than 21 years left to run.

You may have to pay the higher rates even if you intend to live in the property you're buying (and regardless of whether or not you already own a residential property).

If you sell or give away your previous main home within 3 years of buying your new home you can apply for a refund of the higher SDLT rate part of your Stamp Duty bill.

From 29 October 2018 onwards, a refund must be claimed within 12 months of either the:

- sale of the previous main residence
- filing date of the SDLT return relating to the new residence, whichever comes later.

Q. I have been running my own business since 1 September 2018 and now wish to complete my 2018/19 tax return. I have not incurred any capital expenditure and my turnover is less than the current VAT registration limit. Should I use 31 March (or 5 April) as my accounting year-end?

A. If you make your business accounts up to 31 March, HMRC will treat this as being made up to 5 April.

One advantage of a 31 March/ 5 April year-end is that no 'overlap' profits will be created. Broadly, overlap profits are bought about by being taxed twice in the first two years of trading. You would get relief for this overlap, but potentially this won't be until a much later stage (for example if you change your accounting date, or if you cease to trade).

One advantage of a 30 April year-end is that tax is paid later. So, for a 30 April 2019 year-end, tax will become due for payment on 31 January 2021, and the tax on profits earned between 1 May 2019 and 30 April 2020 will be payable by 31 January 2022. If the business had a 31 March 2020 year-end, the tax on profits earned between 1 April 2019 and 31 March 2020 would become payable until 31 January 2021. Remember though, if you chose a later year-end, make sure that you keep enough money aside to pay your tax bill when it becomes due.

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 50 page 'New Business Kit' report. Please contact us to request your copies 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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