HANLEY & CO
CHARTERED ACCOUNTANTS
AND BUSINESS ADVISORS

TAX TIPS & NEWS

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Welcome...

To July'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 are here to help!

July 2019

- MTD is here! Can we help?
- New VAT Rules for Construction Sector.
- Accountants for Ecommerce Businesses.
- Capital Allowances for Buildings.
- Creating an Employer Brand
- Tax relief on the Staff Summer BBQ?
- Tax Free Childcare.
- Managing Employees with a ‘side hustle’.
- PAYE Settlement Agreements.
- Tax-efficient Pension Contributions.
- Scaling up your Business
- July’s Questions and Answers

MTD is here! Can we help?

One third of all VAT registered businesses are due to file their first MTD compliant VAT Return **in less than two weeks from now!**

Thankfully, HMRC have promised a ‘light touch’ for twelve months - withholding penalties for businesses that make genuine efforts to comply with the requirements.

At Hanley & Co we have been working over the last few years to help our clients digitise their records and recently transferring many clients’ VAT registrations into the new MTD portal for digital transmissions.

We already have 100’s of clients using digital accounting systems including our very popular and costs effective KashFlow online bookkeeping system (a fraction of the cost of QuickBooks, Xero and Sage).

Recently we have also recently started introducing selected clients to ‘Receipt Bank’ a system that can significantly reduce processing time with those paper purchase invoices that keep coming through the letterbox!

If you require help last minute help with your bookkeeping systems, VAT and MTD please call us as soon as possible.

New VAT rules for the Construction Sector

Under new rules due to come in on 1 October 2019 builders, sub-contractors and other trades associated with the construction industry will have start using a new method of accounting for VAT.

Under the new rules, supplies of standard or reduced-rated building services between VAT-registered businesses in the supply chain will not be invoiced in the normal way. Under the reverse charge, a main contractor would account for the VAT on the services of any sub-contractor and the supplier does not invoice for VAT. The customer (main contractor) would then account for VAT on the net value of the supplier's invoice and at the same time deduct that VAT from the payment to the sub-contractor.

This is intended to ensure that VAT is correctly accounted for on supplies by sub-contractors.

The new reverse charge will apply to a wide range of services in the building trade, primarily those activities covered by the construction industry (CIS) payment rules. Note that normal VAT invoices will continue to be issued to domestic customers.

Please contact us if you are likely to be affected by these changes and we can work with you to ensure you are ready for the new system.

Specialist Accountants for Ecommerce Businesses

Over recent years the number of 'online traders' or 'Ecommerce' businesses has grown considerably and in the next ten years we believe the market will at least double!

Hanley & Co began advised several substantial eBay traders over ten years ago and due to the significant growth of Amazon FBA (and many other markets) we have been very fortunate to have attracted a significant number of these businesses as clients from across the UK (and overseas).

We consider ourselves to be 'the specialists' in this area. We are regularly contacted by businesses whose accountants just don't handle (or understand) this sector.

Most of these businesses need (and expect) an online bookkeeping system that caters for the complex reports flowing from Amazon, PayPal, Stripe etc. They also need confidence that their VAT and taxes are being properly handled.

If you know of an Ecommerce business proprietor that is struggling for advice from their advisors and accountants or need certainty about their bookkeeping, VAT registration requirements (including EU / international), VAT calculations and schemes (and of course MTD) please **ask them to contact us for a chat!**

Capital allowances SBA update

HM Treasury and HMRC have recently published a summary and response document relating to the consultation on a new capital allowance for structures and buildings (SBA).

Broadly, **the SBA allows businesses that invest in new builds or renovations on or after 29 October 2018, to claim tax relief at 2%** a year on eligible costs.

A technical note outlining the key features of the allowances was published at Autumn Budget 2018, with the subsequent draft legislation released for consultation at Spring Statement 2019. Power to introduce the new allowance was contained in FA 2019, s. 30. Detailed legislation will be introduced by Statutory Instrument, which is currently being laid before Parliament.

Key features of SBA include:

- relief will be given at a 2% flat rate over a 50-year period;
- relief will be available for new commercial structures and buildings, including costs for new conversions or renovations;
- relief will be available for UK and overseas structures and buildings, where the business is within the charge to UK tax;
- relief will be limited to the costs of physically constructing the structure or building, including costs of demolition or land alterations necessary for construction, and direct costs required to bring the asset into existence;
- relief will be available for eligible expenditure incurred where all the contracts for the physical construction works were entered into on or after 29 October 2018;
- claims can only be made from when a structure or building first comes into use;
- relief will not be available for land costs or rights over land;
- relief will not be available for costs of obtaining planning permission;
- the claimant must have an interest in the land on which the structure or building is constructed;
- relief will not be available for dwelling houses, nor any part of a building used as a dwelling where

the remainder of the building is commercial;
- sale of the asset will not result in a balancing adjustment - instead, the purchaser will take over the remainder of the allowances written down over the remaining part of the 50-year period;
- expenditure on integral features and fittings of a structure or building that are currently allowable as expenditure on plant and machinery, will continue to qualify for writing down allowances for plant and machinery including the AIA, up to its annual limit;
- SBA expenditure will not qualify for the Annual Investment Allowance (AIA);
- where a structure or building is renovated or converted so that it becomes a qualifying asset, the expenditure will qualify for a separate 2% relief over the next 50 years.

As a result of the consultation process some features have been amended, including those relating to short-term leaseholds, eligible pre-trading costs, periods of disuse, and reducing claimants' administrative burdens.

Creating an Employer brand

The businesses that attract the best talent all have one thing in common - a great employer brand.

All businesses have an employer brand - it's what your employees, customers, suppliers, peers and potential employees say about your business. A strong employer brand can help your business to compete for the best talent and can even have a positive impact on your firm's overall brand reputation in the market.

Define who you are first

Before you can begin to create your employer brand you need to decide what you want that brand to be. Start by considering what the most appealing things are about your firm. Why do good people want to work in your firm? What do you stand for and who are your customers? For example, do your employees get to work in an entrepreneurial environment, that encourages flexible working and allows them to work with international clients?

Identify your target market

What type of people do you want to hire into your business? Do you want to hire energetic, tech savvy millennials or solid, experienced, dependable generation X? If you're trying to attract a completely new breed of employees (who are quite different to your current staff) then your actual company culture, vision and values may need some work - especially if they are at odds with the type of people that you are hoping to attract.

Build a strong company culture

You need to build your firm's culture around your company values and hire people who fit with those values. Encourage your staff to think outside the box, to try new things and to innovate. Engage your people in building a great place to work. Ask them for their ideas and empower them to implement those ideas.

Publicise your culture

If you create a firm and a culture that your staff are proud of, they will tell people about it. The more participation from your employees, the stronger your employer brand will be. You can help them to publicise your firm's culture by creating posts on social media sites such as LinkedIn, Twitter or Facebook. If your staff are proud of the firm that they work for, they will like and share these posts.

Celebrate what makes your firm unique

Whether it's a casual dress policy or office sporting events on a Friday, take time to have a bit of fun in your firm. Maybe you have the best people or you work as a team to help a local charity or community group. Whatever it is that brings your team together in a positive way and makes your company unique should be celebrated. The more you do so, the more engaged your people will be and the more they will tell everyone about the great firm that they work for.

A staff summer party can be a tax-free benefit

Your organisation may have an annual Christmas party for staff, but the tax rules also allow staff parties at other times of the year which are a tax-free benefit if certain conditions are satisfied (it depends on how much you spent at Christmas).

The exemption applies to an annual party (for example, a Christmas party), or similar annual function (for example, a summer barbecue), provided for employees and is available to all employees or available to all employees at that location, where the employer has more than one location. If the employer provides two or more annual parties or functions, no tax charge arises in respect of the party, or parties, for which cost(s) per head do not exceed £150 in aggregate. For each function the cost per head should be calculated. The cost per head of subsequent functions should be added. If the total cost per head goes over £150 then whichever functions best utilise the £150 are exempt, the other is taxable.

Tax-free childcare - don't miss out!

HMRC are currently running a campaign to remind people that they **could get up to £2,000 per child, per year, towards childcare costs.**

Broadly, eligible parents/guardians may receive government top-ups of £2 for every £8 that they pay into a tax-free childcare account, up to a maximum of £2,000 per child (or £4,000 for disabled children). There is an overall maximum limit of £10,000. The scheme is open to all working parents across the UK with children under 12, or under 17 if disabled.

Under the scheme, the parent/guardian opens an online account and decides how much to pay in. Circumstances are re-confirmed online every three months. Anyone can pay into the account, including grandparents, other family members or employers, giving flexibility to pay in more in some months, and less at other times.

Money can be withdrawn at any time but in doing so, the government contribution will be lost.

To qualify for the government contribution, account holders will usually have to be in work, expecting to earn at least the National Minimum Wage (NMW) or Living Wage (LW) for 16 hours a week on average, over the next 3 months.

Self-employed people who do not expect to make enough profit in the next 3 months can use an average of how much they expect to make over the current tax year. Additionally, the earnings limit does not apply to self-employed individuals who started their business less than 12 months ago.

Unlike the previous childcare scheme, tax-free childcare does not rely on employers offering it. Any working family can use a tax-free childcare account, provided they meet the eligibility requirements.

The Childcare Choices website includes a childcare calculator for parents to compare all the government's childcare offers and check what works best for their families, including the 30-hour free childcare offer, tax-free childcare or universal credit.

Managing employees who have a side hustle (job or business)

A recent study suggests that 25% of employees in the UK are running at least one business project alongside their day job.

A side hustle is defined as a secondary business or job that brings in, or has potential to bring in, extra income. It is particularly popular among millennials, who tend to start a side hustle as a hobby or in order to explore a new challenge. Millennials tend to have different attitudes towards work and technology.

They are used to being able to work from anywhere, using a smartphone or a tablet.

Various studies have shown that employees who have a side hustle report feeling happier and more content. However, businesses / employers seem to view a side hustle as a negative distraction from their employee's day jobs.

The truth is that many of the best employees have a side hustle and employers need to be more supportive. A side hustle can actually be a good thing as long as it doesn't involve working for a competitor or doing anything that might damage the main employer's business.

Employees can learn new and useful skills from running their own side hustle. They can gain real-life experience of customer service, project management or budgeting that can be applied when they are working their day job. From an employer's perspective, their employees are gaining new skills that can make them better at their jobs and the employer doesn't have to pay for any training.

Research from numerous studies has found that an employee who has the drive to work a side job is more likely to be innovative, proactive, and organised. They are also more likely to come up with new ideas, which they have gained through their own new experiences.

A survey from a well-known careers website recently revealed that over 70% of employees with a side hustle want to remain in full time employment. They don't want their side hustle to become their full-time job, as it's more of a hobby / passion that just happens to create an income.

It seems that the side hustle is here to stay and employers need to shift their view - a side hustle is a positive thing. However, employers should consider adding a **non-compete clause** to contracts just to ensure that there is no temptation for employees to side hustle in any way that could damage the employer's business.

Using a PAYE Settlement Agreement to pay some of your employee's taxes

PAYE settlement agreements (PSAs) are arrangements under which an employer can settle the income tax and National Insurance liabilities on benefits in kind and expenses payments provided to employees and officeholders.

Setting up a PSA avoids passing on an unexpected, and potentially demotivating, tax charge to employees. Where a PSA has been agreed with HMRC, this will obviate the need for any reporting on the individual's P11D.

The items that can be included in the PSA must meet one of three criteria: minor, irregular or impracticable to apply PAYE or apportion between the employees receiving the benefit.

Although reporting will eventually go online, applications for a PSA are currently made in writing to HMRC. The Revenue will then issue a P626 contract, which states that the employer will pay the tax and National Insurance liability on agreed benefits.

Tax-efficient remuneration with pension contributions

Tax relief is generally available on pension contributions at the taxpayer's highest rate of income tax paid, meaning that basic rate taxpayers get relief on contributions at 20%, higher rate taxpayers at 40%, and additional rate taxpayers at 45%. In Scotland, income tax is banded differently, and pension tax relief is applied in a slightly different way.

Pensions are a particularly tax-efficient form of savings since nearly everyone is entitled to receive relief on contributions up to an annual maximum regardless of whether they pay tax or not. The maximum amount on which a non-taxpayer can currently receive basic rate tax relief is £3,600. So, an individual can pay in £2,880 a year, but £3,600 will be the amount actually invested by the pension provider.

The total amount of tax relief available on pension contributions is calculated with reference to 'relevant UK earnings'. Unfortunately, dividends do not count towards 'relevant UK earnings' for pension contributions purposes. This means that where a director takes remuneration by way of a small salary and a large dividend, the dividend will not count and the individual's pension tax relief limit may be restricted. Moreover, tax charges will apply if the limit is exceeded.

A director looking to increase their tax-free contributions limit could consider either increasing the amount of salary taken from the company (to increase 'relevant UK earnings'), or (more likely) **by making the pension contribution directly from the company as an employer contribution**. Making an employer contribution has additional advantages.

Qualifying employer contributions count as allowable business expenses, so the company could currently save up to 19% in corporation tax. In order to qualify for a deduction, the pension contributions should be 'wholly and exclusively' for the purposes of business. HMRC will check for evidence that this is the case, for example whether other employees are receiving comparable remuneration packages.

Another advantage of making a company contribution is that employer National Insurance Contributions will not be payable, saving the company up to 13.8% on the contribution amount.

This means that the company can potentially save up to 32.8% by paying money directly into the directors pension rather than paying money in the form of a salary. Depending on circumstances, this may or may not be more beneficial than paying personal pension contributions.

Scaling up your business

How do you scale up your business and take it to a new level?

A scale-up business is any firm that is looking to grow in terms of market access, revenues, and number of employees, adding value by identifying and realising new opportunities.

Scale-up businesses are the engine of growth for the UK economy, creating wealth, opportunities and employment in a competitive environment.

Organic versus inorganic growth Firms can scale up in one of two ways. They can focus on organic growth - growing gradually thorough increased sales and market share. Alternatively, they can scale up through inorganic growth strategies such as through an acquisition or a merger with another business.

Commit to growth

Scaling up a business takes a huge amount of time and effort so you need to ensure that your management team is committed to growing the business. You and your team will need to create realistic growth targets and develop plans and concrete actions of how growth will be achieved.

Upskill your team

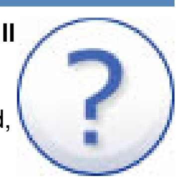
Your management team will have a given level of expertise. However, delivering a growth strategy may require an expanded skillset. Take the time to identify the skills required to realise your growth strategy. Do you have people with good management experience, an understanding of the relevant technology, good financial skills and a background in change management? If not, you will need to upskill your current team or hire in experienced professionals to help drive growth.

Collaborate

In order to scale up your business you will need to create partnerships with people and firms outside of your business. Consider your routes to market and identify potential service providers, sales channel partners, suppliers and key clients who you can work with in order to form alliances which will drive the growth of your business.

If you are focused on expanding into new markets, you will need to create collaborative business relationships with sales partners and suppliers in those countries, and may need to create formal agreements with these new business partners.

July questions and answers



Q. If my husband and I give our house to my children but continue to live in it, will inheritance tax be chargeable on the property when we die?

A. The inheritance tax residence nil rate band (RNRB), which is currently being phased, is designed to help people in your position to pass on the family home to children or grand- children, tax-free after their death.

Broadly, where someone dies on or after 6 April 2017 and their estate is above the basic inheritance tax threshold (currently £325,000), the estate may be entitled to an additional threshold before any inheritance tax becomes due. The extra amount for 2019/20 is up to £150,000 and this will increase to £175,000 in 2020/21.

The additional threshold can be added to the basic inheritance tax threshold of £325,000 if the person and their estate meet the qualifying conditions. This means that from 2020/21, it should be possible for a married couple or civil partners, to pass on a family home worth up to £1 million to their direct descendants.

The amount of the additional threshold due for an estate will be the lower of:

- the value of the home, or share that direct descendants inherit
- the maximum additional threshold available for the estate when the person died

Always seek professional advice before entering into any arrangement where the main purpose, or one of the main purposes, is to obtain a tax advantage.

Q. My child's school is asking parents to make a one-off donation to help with much-needed school funds. If I complete a gift aid form for my donation, will I be able to can claim tax back on the payment?

A. If the school is a registered charity, either registered with the Charity Commission or with HMRC, you can make gift aid payments to them - both regular and one-off payments.

Under gift aid your donation is treated as being made net of basic rate tax (at 20%) tax and the charity claims the tax back from the government. So, if you make a donation of £100 under the Gift Aid scheme and you're a basic rate taxpayer, the charity is able to claim back tax of £25 from the government, which means the charity receives £125, but it costs you only £100. A higher rate taxpayer can claim 20% (the difference between the higher rate of tax at 40% cent and the basic rate of tax at 20%) as a tax deduction on the total value to the charity of the donation. So, on a gift of £100, a higher rate taxpayer can reclaim £25 (20% of the gross donation of £125). The claim is usually made via the individual's self-assessment tax return.

Q. I borrowed some money from my company to lend to my brother. He is paying it back in monthly instalments over three years. I am the sole director and shareholder of the company and I am not charging my brother interest on the loan. Are there any tax implications I need to consider?

A. The tax implications for the company are that the loan is deemed to have been made to an associate of a participator in the company, and as such, it will be caught by what are commonly referred to as the 'section 455 rules'. Broadly, these rules mean that the company will have to pay tax at 32.5% on the amount of the loan outstanding nine months after the accounting year end of the company. When the loan has subsequently been repaid to the company, HMRC will refund the tax paid.

There is an exception to this, namely where a loan does not exceed £15,000, but only when the shareholder does not own more than 5% of the shares.

If an employee of a relative of an employee receives an interest-free loan from an employer, this will be a benefit-in-kind for the employee. Interest at the 'official rate' (currently 2.5%) is calculated, and this deemed interest is subject to tax. However, there are exceptions to this tax charge where:

- the loan is a 'qualifying loan';
- a qualifying or non-qualifying loan is less than £10,000; and
- the employee can show that they received no benefit from the loan to the relative.

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' guide.

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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