Welcome...

To August'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!**

August 2019

Off – Payroll Working – rules going ahead

The draft Finance Bill clauses issued for consultation on 11 July include legislation to extend the "off-payroll" working rules to the private sector from 6 April 2020. These changes will have significant implications for workers providing their services through personal service companies and also the end user organisations that engage such workers.

End users will be required to determine whether the worker would have been an employee if directly engaged and hence the new 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.

If the end user decides the worker would have been an employee then they have to **deduct PAYE** from the payments owed to the workers company.

"SMALL" EMPLOYERS EXCEPTED

"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 draft Finance Bill confirms that the definition of "small" is linked to the Companies Act 2006 definition - An eligible **company** will **qualify** as **small** if it meets at least two out of three of: turnover: not more than £10.2m; balance sheet total: not more than £5.1m; and. average number of employees: not more than 50.

Remember – this is not your business size it is the size of the company you are working for!

Recent Ecommerce News and Advice

Our expertise with Ecommerce businesses continues to grow. In the last month we have:

- Spent time with an importer / wholesaler where their accountant couldn't advise them on Ecommerce VAT requirements.

- Helped a European company set up and register for VAT in UK - trading on Amazon.com.
- Successfully obtained an £18k VAT refund from Amazon themselves.
- Helped a new client set up a UK Ltd for eBay trading and arranged the transfer from sole trader to limited.
- Helped several eCommerce clients set up bookkeeping systems and implement MTD.
- Finalised accounts for a UK company with the owner based overseas and advised him on Amazon.com trading.
- Investigated the VAT status of Amazon FBA Inventory Credits (when they lose or damage your stock). Some know these payments don't include VAT – but don't understand why – and what do you tell the VATman? We have researched and confirmed (with HMRC) the correct answer!
- Advised a growing Ecommerce business about its business structure successfully gaining an extra £85,000 'VAT free' turnover.
- Mastered VAT Accounting for Amazon traders registered on the confusing Amazon VAT Calculation Service.

Dividend allowance

Many family-owned companies allocate dividends towards the end of their financial year and/or the tax year, which means that the impact of **the reduction in the dividend allowance from £5,000 to £2,000 from 6 April 2018 is only now starting to come to light.** Many other taxpayers may not become aware of the change until they complete their 2018/19 tax return, which in most cases, will be due for submission to HMRC by 31 January 2020.

The amount of tax payable on a dividend will primarily depend on which tax band the first £2,000 falls in. The tax rates on dividend income, above the allowance, remain at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

For a basic rate taxpayer, the reduction in the allowance means an increase in tax paid on dividends of £225. For a higher rate taxpayer, the reduction increases the annual tax bill on dividends by £975, and for additional rate taxpayers, the increase is £1,143. Note that if dividend income falls between multiple tax bands, these figures will be different.

The allocation of various rate bands and tax rates can be complicated, even in situations where straight-forward dividend payments are made. Family business structures may be particularly vulnerable to the impact of the reduction in the dividend allowance, especially where multiple family members take dividends from the family company.

Company VAT Penalty can be the liability of an 'Officer'

A recent case before the tax tribunal saw the liability for a late VAT registration penalty being passed on to a manager of the company. HMRC have the power to impose such a penalty on an individual where (1) there is a penalty payable by the company for a deliberate failure (2) the individual on whom HMRC seek to impose liability is an "officer" of the company; and (3) the deliberate failure is attributable to that officer.

The correct way with directors' NICs

In certain situations the non-cumulative nature for calculating employee Class 1 National Insurance Contributions (NICs) makes it possible to manipulate earnings to reduce the overall amount payable by taking advantage of the lower rate of primary Class 1 contributions payable once the upper earnings limit has been reached.

This means that that an employee who is paid £2,000 each month of the year will pay considerably more in primary contributions than someone who is paid £600 for 11 months and £23,400 for one month, even though their total earnings for the year are the same.

Company directors often have greater scope to influence the amount and timing of payments, so to prevent manipulation of the rules, special provisions apply to all directors for NIC calculation purposes. Broadly, directors' NICs are calculated on a cumulative annual basis. This applies even where they are paid, say, monthly or leave the company during the year.

The only exception to this rule is where a director is first appointed during the course of a tax year. Where this is the case, the earnings period is the period from the date of appointment to the end of the tax year, measured in weeks. The calculation of the earnings period includes the tax week of appointment, plus all remaining complete weeks in the tax year (i.e. week 53 is ignored for this purpose). This is known as the pro rata earnings period.

Make time for your own personal development

As a leader in your firm, you are focused on developing the people around you. But who is responsible for your own development?

If you want to help your employees to grow and develop, you need to invest time in developing yourself, as a leader. In order to focus on your own personal development, you need to schedule time to do so. If you don't, your team and your business could outgrow you and your own career could stagnate.

Lead by example

If you want your team to take the time to invest in their own personal development, you need to lead by example. If you make time to learn and develop new skills, your team are more likely to follow suit. You may even be able to make suggestions to your team members, based on your own learning and development experiences.

Embrace technology

Learning and development doesn't have to involve taking several days out to attend a conference or training session. There is an ever-expanding range of learning opportunities available online. The beauty of this is that you can take courses and attend webinars at a time that works for you.

Find a topic that interests you

There is no point trying to develop your skills in an area that you have no interest in. You want to feel motivated and keen to develop new skills. Do your research and find a development opportunity that you are passionate about. Personal development should be an interesting opportunity, not a chore.

Distractions can be a good thing

Focusing on your own personal development gives you an opportunity to step back from your day job. We often come up with our best ideas when we are off doing something new or exciting. Taking time away from the day-to-day can help to provide new perspectives on things and re-evaluate your priorities. When you get back to your desk, you may have new ideas and you should feel re-energised.

Building trust as a manager

In order to manage an effective team of people you need to win their trust.

If employees don't have trust in their company and their managers, they can become disengaged. This can lead to high rates of staff turnover and those who stay are likely to be de-motivated.

Transparency

Honesty is the best policy. Communicate with your team,

ensure that they are kept in the loop regarding the firm's strategic plans and that they feel that their views are heard (and listened to), by management. Ask them for their input and where you have made a decision, give them some background information, so that they can better understand the drivers behind that decision.

Employees are people, not numbers

It's easy to get lost in the numbers. We all love sales figures, KPIs and metrics. However, if you invest some time in getting to know your team members, they will feel valued by the firm. You don't need to become their best friend but you do need to get to know them better in order to get the best out of them, keep them motivated and help them to progress their careers.

Give credit where it is due

The best managers show appreciation and acknowledge the hard work that is delivered by their people. Various studies have shown that employees who receive recognition from their line managers were significantly more likely to trust them.

Prioritise the team's interests

To gain their trust, managers should be their team's best advocate. The best managers present their team in a positive light and are openly proud of their accomplishments. Mistakes should be seen as learning opportunities and managers should take responsibility for putting things right, rather than placing the blame on an individual.

Ask your team for feedback

The best managers ask their team members for feedback. Constructive feedback should always be welcomed. Nobody is perfect and even the best managers can learn from their team members. Asking for feedback will also help you to build trust and rapport with your team members.

Questions and answers

Q. A few years ago I bought an antique chair for £3,500. I have recently been offered £8,000 for it. Will I have to pay capital gains tax if I accept the offer?

A. A useful capital gains tax exemption exists for tangible moveable property (a chattel) which is not a wasting asset (broadly, an asset with a predictable life not exceeding 50 years).

A gain on disposal of a chattel is exempt if the disposal consideration is £6,000 or less. Where disposal proceeds exceed the exemption limit, the gain is limited using the following formula:

5/3 x (disposal consideration - £6,000)

In relation to your chair, the capital gain would be:

Disposal consideration - £8,000
Less: allowable cost - (£3,500)
Gain before chattel exemption - £4,500
Less: chattels exemption:
amount by which gain exceeds 5/3 × (£8,000 - £6,000):
£4,500 - £3,333 = £1,167
Chargeable gain - £3,333

Q. I am a VAT-registered trader and use the flat rate scheme for working out my VAT payments. I receive a small amount of rental income each month which I include in turnover to calculate the VAT due to HMRC. The rental income is managed by a letting agent. Should I include the gross or net rent in my VAT?

A. HMRC's Notice 733, section 6.2 sets out what must be included for the purposes of calculating flat rate turnover, which includes the value of exempt income, such as any rent or lottery commission.

In addition, section 9.4, which deals with cash-based turnover, confirms that if a net payment is received, the full value before any deductions is included in the scheme turnover.

Q. I am the director of a family-owned company. My wife and my two children are employed by the company. If the company provides a mobile phone to each of us, what will the tax implication be?

A. No tax charge arises where an employer provides an employee with a mobile phone, irrespective of the level of private use. The exemption applies to one phone per employee.