Welcome...

To December'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 pays 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!**

November / December 2019

Hanley & Co's 9th Christmas 'Sleeping Bag for the Homeless' Appeal – Can you help?

Our offices will close on Friday 20th December 2019 at 3 pm and will re-open on Thursday 2nd January 2020 at 9 am. **We would like to take this opportunity to wish You a Very Merry Christmas and a Prosperous 2020.**

While we are tucked up warm at home over Christmas we aim to have helped some of the area's homeless people. This is our 9th annual appeal to provide sleeping bags to the local homeless. A new, high-quality compact sleeping bag costs just £25. Please, can you help us?

You can donate ANY AMOUNT – whatever you can manage. Every penny will be gratefully received and spent (100%) on sleeping bags, delivered to the streets before Christmas!

Previous appeals have raised **over £8,000** and we have kick-started this year's appeal by donating £300 in lieu of sending Christmas cards to our clients and associates.

Tax-free Christmas parties

Whilst the tax legislation does not include a specific allowance for an employer providing a Christmas party for employees, **HMRC does allow limited tax relief against the cost of holding a social function for employees,** providing certain conditions are met.

Broadly, a social event - which of course, includes the annual Christmas party - will qualify as a tax-free benefit if the following conditions are satisfied:

- The total cost must not exceed £150 per head, per year;
- The event must be primarily for entertaining staff; and
- The event must be open to employees generally, or to those at a particular location if the employer has numerous branches or departments.

The 'cost per head' of an event is the total cost (including VAT) of providing:

a) the event, and

b) any transport or accommodation incidentally provided for persons attending it (whether or not they are the employer's employees),

divided by the number of those persons.

Provided the £150 limit is not exceeded, any number of parties or events may be held during the tax year, for example, there could be three parties held at various times, each costing £50 per head.

Note, however, that the £150 is a limit, not an allowance - if the limit is exceeded by just £1, the whole amount must be reported to HMRC.

The £150 exemption is mirrored for Class 1 NIC purposes, (so that if the limit is not exceeded, no liability arises for the employees), but Class 1B NICs at the current rate of 13.8%, will be payable by the employer on benefits-in-kind which are subject to a PAYE Settlement Agreement (PSA).

If there are two parties, for example, where the combined cost of each exceeds £150, the £150 limit is offset against the most expensive one, leaving the other one as a fully taxable benefit.

For the employer, the cost of staff events is tax-deductible for the business. Specifically, the legislation includes a let-out clause, which means that entertaining staff is not treated for tax in the same way as customer entertaining. The expenses will be shown separately in the business accounts - usually as 'staff welfare' costs or similar.

There is no monetary limit on the amount that an employer can spend on an annual function. If a staff party costs more than £150 per head (see below regarding this threshold), the cost will still be an allowable deduction, but the employees will have a liability to pay tax and National Insurance Contributions (NICs) arising on the benefit-in-kind.

The employer may agree to settle any tax charge arising on behalf of the employees. This may be done using an HMRC PAYE Settlement Agreement (PSA), which means that the benefits do not need to be taxed under PAYE, or included on the employees' forms P11D. The employer's tax liability under the PSA must be paid to HMRC by 19 October following the end of the tax year to which the payment relates.

The full cost of staff parties and/or events will be disallowed for tax if it is found that the entertainment of staff is, in fact, incidental to that of entertaining customers.

VAT-registered businesses can claim back input VAT on the costs, but this may be restricted where this includes entertaining customers.

Christmas gifts of up to £50 to employees

Remember that certain gifts to staff at Christmas are tax-free if structured correctly. Ever since April 2016 employers are allowed to provide their directors and employees with certain “trivial” benefits in kind tax-free.

The rules were brought in as a simplification measure so that certain benefits in kind do not now need to be reported to HMRC, as well as being tax-free for the employee. There are of course a number of conditions that need to be satisfied to qualify for the exemption.

Conditions for the exemption to apply

- the cost of providing the benefit does not exceed £50
- the benefit is not cash or a cash voucher
- the employee is not entitled to the benefit as part of any contractual obligation such as a salary sacrifice scheme
- the benefit is not provided in recognition of particular services performed by the employee as part of their employment duties (or in anticipation of such services)

This exemption will generally apply to small gifts to staff at Christmas, on their birthday, or other occasions and includes gifts of food, wine, or store vouchers.

Note that where the employer is a "close" company and the benefit is provided to an individual who is a director or other office holder of the company, the exemption is capped at a total cost of £300 for the tax year.

Please feel free to contact us if you are considering taking advantage of this exemption.

Gifts to charities

Where possible higher rate taxpayers should "Gift Aid" any payments to charity to provide additional benefit to the charity and for the individual to obtain additional tax relief on the payment.

For example, where an individual makes a £20 cash donation to charity the charity is able to reclaim a further £5 from HMRC making a gross gift of £25. Where the individual is a 40% higher rate taxpayer he or she is able to claim a further £5 tax relief under self-assessment, reducing the net cost of their donation to £15.

Note that the donor is required to make a declaration that they are a UK taxpayer and those that have not suffered sufficient UK tax to support the Gift Aid amount will be taxed on the shortfall.

Remember that Gift Aid does not just apply to gifts of cash. Many charity shops will now sell the donated items on your behalf and are able to treat the sale proceeds as Gift Aided donations.

It is also possible to gift quoted securities and land and buildings to charity and claim Gift Aid on the market value of those assets.

Boris Johnson delays 17% rate of Corporation Tax

The Corporation Tax rate was scheduled to reduce from 19% to 17% from 1 April 2020.

However, in a speech to the CBI on 18 November Boris Johnson announced that, if elected, the Conservative Party would keep the rate at 19% to provide an extra £6 billion for the NHS.

Following last week's election win the NHS seems to be number 1 priority after 'getting Brexit done' so it seems likely this policy will follow through – possibly for some years?

We are expecting a new Budget by March 2020.

Reducing debtor days to improve cash flow

Cash flow is king in any business. Yet cash flow is one of the areas that many businesses struggle to manage. Customers are reluctant to part with their money, even if it's to pay for your goods or services. As such, it can take a while for them to pay their invoices.

While longer debtor days might not be a big issue for huge international corporations, for the rest of us, it can be a very real source of stress. You need your customers to pay you as quickly as possible so you can continue to run your business, so it's easy to find yourself working extra hours, chasing up late-paying clients. Here are a few tips to help you to reduce your debtor's days.

1 Be clear and concise

When creating an invoice, think about your messaging. Is the due date easy to see on the page, does your invoice state exactly how much payment is required and have you clearly outlined the various payment options that you accept (such as bank transfers, cash, cheque, etc.)? Options such as "pay now", "pay by instalments" or "pay on the due date" should be clearly set out.

2 Offer incentives

Sometimes offering a small discount can motivate your clients to pay on time. Offering say, 5% off the total bill for clients who pay within 2 weeks of the invoice date can help a business to get cash in quicker. Setting this type of incentive out at the beginning of a client relationship can go down well as clients can see the early payment discount as a "value add".

3 Charge fees for late payment

Incentivise customers to pay you on time by charging a fee for late payments. If you communicate the terms and conditions around late fees clearly, clients will not be surprised if they are charged for late payment.

If you are going to charge clients for late payment, it is usually effective to give some sort of warning. It may be helpful to send clients an email saying that "payment is due in 10 days time and if it isn't received, a late payment fee will be applied." This gives the client an opportunity to respond.

4 Embrace technology

There is a vast array of systems available to help businesses to track invoices, monitor payments and manage clients who have missed payment deadlines. With an automated accounts receivable system, you can keep track of the status of each invoice, who has paid and what is outstanding. You can set up automatic reminders at crucial moments in the payment cycle and significantly reduce your administration time.

By implementing the above strategies, you can reduce debtor days in your business and ensure that you are getting cash in as quickly as possible.

Ecommerce businesses. Are there gaps in your Pan European VAT declarations?

The last year has seen a dramatic rise in the number of Amazon traders joining the Pan-European FBA Network.

As soon as Amazon stores your goods in another country your business is required to register for VAT in that country. This has led to many of our Amazon trader clients becoming VAT registered in Germany, France, Italy and Spain and often in Poland and Czechoslovakia.

Special VAT Agents deal with the multi-language VAT applications and then with filing the subsequent VAT Return (often monthly) with each country.

The problem is that many of our clients new to this system have the perception that all the VAT due on their Sales 'in Euros' is being dealt with by the Agents and has been properly paid over to the foreign VAT authorities.

These perceptions are incorrect.

Agents do not advise clearly (unless really pressed) and Amazon's own guidance and reporting system are confusing and unhelpful.

The transactions in the DE, FR, IT, ES markets are always denominated in Euros but the Agents only seem to declare VAT for sales of goods delivered **from** each country.

For example, If goods sold to a German customer happen to be out stock in the German warehouse they might be shipped from another country – including the UK. The sale will be on the 'Euro currency' reporting system but will not be picked up by the Agents.

With recent in-depth checks on this for various clients, we have confirmed that the Agents focus on the deliveries **from** each individual country but are often ignoring the whole picture.

Nobody likes paying VAT but having partial liability for UK VAT building up unpaid could be a major problem if our UK HMRC VAT officers visit and understand the system (which sadly they often don't).

This problem is a work in progress for Hanley & Co as we are looking in depth with several clients to understand and deal with this 'gap'.

There are exceptions – but we feel it is important to be aware of this problem before it builds into a significant cumulative misdeclaration. Please call Dean Logan for further advice.

Executing your business strategy

Having a good strategy is one thing, executing it well can be a huge challenge.

Many business owners and managers are familiar with the scenario - you arrange a strategy day with your team, capture the outputs and create a strategic plan. Everyone goes back to the office, the strategy paper gets filed and that is the last you see of it until next year's strategy day. The hardest part of any business strategy is implementation.

Once you have created your strategy, you need to start engaging with your organisation. The communication process is key and needs to be two-way. You need to create a mechanism for people in your firm to feedback their view.

Once you have your feedback and have finalised your strategic plan, the next step is to start creating tangible objectives.

Each objective should have a dedicated owner (who is responsible and accountable), a deadline and regular updates on progress towards each goal should be provided at, for example, a monthly meeting.

Tracking and reporting are key components of executing any strategy. Monthly updates should be provided by the people responsible for each objective and should include a quantitative measure of progress and a short commentary to add background information about progress to date, expected timeline for delivery, resources required for the next stage, and so on.

Performance management is also key to successfully implementing your strategy. Your team need to be accountable and you need to create a connection between the strategic objectives of the business and your team member's day jobs. Each person on your team should have a set of objectives which cascade from the overall company objectives that are set out in your strategy document. Aligning the objectives of each individual with the overall goals of your business ensures that your whole team is working towards the same common goal. You should measure and reward people for their contribution to achieving the firm's strategy. This encourages the right behaviours among your team.

Executing your strategy isn't a process. It is about developing a culture in your firm where everyone is working towards a common set of goals. At the end of each year, you should evaluate your strategy, keep the bits that are working well and update those parts that haven't been so successful.

Should I register for VAT?

In broad terms, and subject to certain exceptions, a business will be required to register to charge and pay VAT once annual sales reach a pre-set annual threshold, which is currently £85,000. This threshold is determined by total sales and is not the same as total profits (which is generally sales minus expenses).

However, a business can register for VAT even if its turnover (total sales) is below the threshold and it may actually save tax by doing so, particularly if its main clients or customers are organisations that can reclaim VAT themselves.

Example

Bill is a non-VAT registered painter and decorator. He is a basic rate (20%) taxpayer. He buys a new ladder to use in his business, which costs him £100 plus VAT, so he pays a total of £120 (£100 plus VAT at 20%. Bill will set £120 as a cost against his business profits. As he is a basic rate taxpayer, he will save tax of £24 (£120 x 20%), so the ladder actually costs Bill £96. However, if he is registered for VAT, the £20 VAT paid on the item (the input tax) can be reclaimed and £100 is set against business profits for income tax. The tax reduction is, therefore, £20 (£100 x 20%) and the ladder costs £80 - saving £16 by being registered for VAT.

VAT-registered businesses supplying goods and services to private individuals often feel dis-advantaged compared to their non-registered counterparts because they have to charge an additional 20% on every bill issued.

A trader who does not want to have to register for VAT may be able to stay below the annual VAT registration threshold by supplying labour-only services and getting customers to buy any goods needed themselves.

Deciding whether to register for VAT voluntarily before the registration threshold is reached is a big decision that can have lasting implications for the financial health of the business. Positive reasons supporting voluntary registration include

- Reclaiming VAT - although a registered business will have to charge VAT on goods and services (known as charging 'output tax'), it will also be able to reclaim VAT that it is charged by other businesses (known as 'input tax'). Where input tax exceeds output tax in a given period, the business will generally be able to reclaim the difference from HMRC.

- Marketplace perceptions - some businesses choose to register for VAT in order to appear larger than they are. Customers are likely to be aware of the £85,000 registration threshold - and where a business is not registered, its customers will know that the business turnover is lower than this. A business may, therefore, consider registering as a way of increasing its standing amongst competitors, and in the eyes of clients.

Recognising genuine HMRC contact

Broadly, phishing is the fraudulent attempt to obtain sensitive information such as usernames, passwords and credit card details by disguising oneself as a trustworthy source in an electronic communication. This is generally carried out by email spoofing or instant messaging, and it often directs users to enter personal information at a fake website which matches the look and feel of the legitimate site.

Most people are aware of the increase in volume and sophistication of phishing campaigns in recent years, but worryingly, there has also been a notable rise in reported incidents of phone calls and/or electronic communications from people claiming to be HMRC.

So**, how can you recognise what is genuine HMRC contact** and what are phishing, or bogus emails and text messages?

Electronic communications

HMRC never send notifications by email about tax repayments or refunds. Therefore, if an email is received along these lines the recipient should not:

- visit the website;
- open any attachments; or
- disclose any personal or payment information.

Fraudsters may spoof a genuine email address or change the 'display name' to make it appear genuine. If you are unsure, forward it to HMRC (phishing@hmrc.gov.uk) and delete it.

HMRC will never ask for personal or financial information when they send text messages. If you do receive a text message claiming to be from HMRC offering a tax refund in exchange for personal or financial details do not open any links in the message. Send any phishing text messages to 60599 (network charges apply) or email phishing@hmrc.gov.uk then delete it.

HMRC are aware of a phishing campaign telling customers they need to 'download a PDF attachment' to get a tax refund. The PDF attachment contains a link to a phishing site asking for personal or financial information. Do not reply to the email or download the attachment. A recent scam has also been identified on Twitter offering a tax refund.

HMRC has published examples of phishing on their website.

Bogus phone calls

Details have recently emerged of an automated phone call scam which informs the listener that HMRC is filing a lawsuit against them (and even – '**we have a warrant for your arrest if you don't pay now'**) and to press one to speak to a caseworker to make a payment. This scam has been widely reported and often targets elderly and vulnerable people. Other scam calls may offer a tax refund and request the listener to provide bank or credit card information

If you have any doubts about your tax liabilities or any refunds due please speak to us straight away. At Hanley & Co we try very hard to ensure all clients know their tax situation well in advance but, if in any doubt, please call us at any time.

Anyone who has been a victim of the scam and suffered financial loss should report it to Action Fraud (https://www.actionfraud.police.uk/).

In summary, never give out private information (such as bank details or passwords), reply to text messages, download attachments or click on any links in emails if you're not sure they're genuine.

The future of work

There is a lot of jargon out there around “the future of work”. What does it really mean for businesses?

There is a lot of buzz around trends like artificial intelligence (AI), machine learning, blockchain, remote working, agile working, augmented reality (AR) and various other new concepts. As technology improves we have new opportunities to automate tasks.

If we leverage new technology effectively, it will free us up to focus on other tasks.

Understanding the future of work involves understanding how automation will play out and how that will affect the way we work in the years to come. There are two levels of automation at play. Assisted Intelligence, where systems and technology help us to perform a task. A good example is how GPS helps us to navigate to a destination. Autonomous Intelligence is where the technology takes the task off our hands entirely. For example - a driverless car, which navigates itself to its destination without any input from a human driver.

In any business, some tasks are completed by people and some by machines/technology. The future of work is concerned with the ever-increasing amount of work that needs to be done and the fact that work is becoming more complex. For example, due to increasing levels of regulation, businesses need to comply with increasingly complex rules such as GDPR or changes to taxation. Rather than hire more and more people, which is expensive, businesses need to leverage technology in order to get everything done, while still managing costs.

So, the future of work is all about machines and technology taking repetitive tasks off our hands so that we are freed up to do the work that machines aren’t good at. This includes leadership, creativity, innovation and collaboration. In order to make this transition successfully, businesses need to become learning organisations.

In a learning organisation, the firm needs to focus on nurturing talent and developing new skill sets in order to create a more successful business. The future of work looks set to be interesting, challenging and full of opportunity, for those who embrace change.

Do you need a desk for everyone in your office?

Office space is expensive. Do you really need to have a dedicated desk for each and every employee?

Recent years have brought a lot of changes to the office environment, particularly as technology develops and the next generation of employees has come through to management. This new generation of managers brings new thinking about the modern office environment and what it should be.

For example, if a workforce of 100 has, on average, only 80 people in the office on a given day, those 20 empty desks take up space and are not being efficiently utilised. A hefty portion of business overhead is dedicated to office building space and maintenance. By trimming furniture and hardware costs, some of that wasted space can be better used as a meeting or project development space, saving money and benefiting the bottom line.

If your employees hot-desk, they tend to socialise more. Employees who sit beside someone different every day interact more, converse with a greater number of departments, and can find inspiration where it wasn't possible to before. More interaction with a wider variety of people can lead to greater company cohesion and increased collaboration.

Employees will tend to optimise the space around them for productivity and might select a space that meets their needs for any given day. If they have conference calls on their schedule, they may gravitate towards a small meeting room or less-crowded alcove. If they are collaborating with colleagues on a specific project, they may choose to work in a room with presentation software and large screens, rather than huddling around a single desk.

When your office design allows for employee flexibility, your workers who thrive on mobility and independence are happier and more productive. They will find a way to optimise their office set-up for each and every day.

So, perhaps modern businesses are better off having flexible, open and collaborative offices rather than relying on the more old fashioned approach of assigning each employee a fixed desk. As an added bonus, the business may be able to reduce office overhead costs as office space can be used more efficiently.

Probate fees - changes abandoned

The Government has confirmed that controversial increases in probate fees will not go ahead as planned. Fees will now remain at a flat rate after proposals for a new tiered approach met with strong opposition on the grounds they amounted to a 'stealth tax' on bereaved families.

Following a period of consultation, plans to charge higher probate fees were set out in the *Non-Contentious Probate (Fees) Order* in November 2018. This proposed abandoning the existing fixed fee of £155 for grant applications made by solicitors and a charge of £215 for those made by individuals for estates valued at over £5,000. Under the new proposals, probate fees would have risen to a sliding scale of up to £6,000 depending on the size of the estate.

The Government also proposed raising the threshold for probate charges from £5,000 to £50,000, indicating this would take around 25,000 estates a year out of fees altogether. However, an estimated 280,000 families annually would have faced higher charges under the new system. The Government claimed that the increases would fund improvements to the Courts Service, with forecasts estimating increased income of £145m a year from 2019-20, rising to £185m in 2022-23.

Opposition from the public, MPs, the Law Society and other groups meant the plans were not brought to a vote, and subsequently the fees were not introduced as originally scheduled in April 2019. The move was then put on hold following the prorogation of parliament.

Now the Lord Chancellor, Robert Buckland, has confirmed that the changes have been abandoned altogether. The Ministry of Justice will now review probate charges as part of an annual assessment of fees charged for all proceedings in civil and family courts.

Salary or bonus?

As 31 December approaches, many companies will be getting ready to tie up tax matters for their financial year-end and giving consideration to salaries, bonuses and dividends.

Given current tax rates, **paying a dividend rather than a salary will often be a more cost-effective way of withdrawing profits from a company**. However, if the company is loss-making and has no retained profits, it will not be possible to declare a dividend, and an alternative will need to be considered. This often involves an increased salary or a one-off bonus payment.

From a tax perspective, the position will be the same whether a salary or bonus is paid. Both types of payment attract income tax at the recipient's relevant rate of tax (20%, 40% or 45% as appropriate). However, from a National Insurance Contributions (NICs) perspective, the position, and any potential cost savings will depend on whether or not the payment is made to a director.

Directors have an annual earnings period for NIC purposes. Broadly, this means that NICs payable will be the same regardless of whether the payment is made in regular instalments or as a single lump-sum bonus. In addition, since there is no upper limit of employer (secondary) NICs, the company's position will be the same regardless of whether the payment is made by way of a salary or a bonus.

Where a bonus or salary payment is to be made to another family member who is not a director, the earnings period rules mean that it may be possible to save employees' NICs by paying a one-off bonus rather than a regular salary.

Example

Jack is the sole director of a company and an equal 50% shareholder with his wife Jill.

In 2019/20 they each receive a salary of £720 per month.

In the year to 31 March 2020, after paying out the salaries, the company has a retained profit of £24,000, which will be shared equally between the two shareholders.

They want to know whether it will be cost-effective to extract the profits as an additional salary - each receiving an additional £1,000 per month for the next twelve months - or as a one-off bonus payment with each receiving £12,000.

The income tax position will be the same regardless of which method is used.

As Jack is a director, his NIC position will be the same regardless of which route is taken as he has an annual earnings period for NIC purposes.

However, as Jill is not a director, the normal earnings period for NIC in a month will be the interval at which her existing salary is paid. Assuming NIC rates and thresholds remain the same in 2020/21, if Jill receives an additional salary of £1,000 a month, she will pay Class 1 NIC of £120 (£1,000 x 12%) a month on that additional salary. Her annual NIC bill on the additional salary of £12,000 will be £1,440. If she receives a lump sum bonus of £12,000 in one month (in addition to her normal monthly salary of £720), she will pay NIC on the bonus of £585 ((£3,450 x 12%) + (£8,550 x 2%)).

Paying a bonus instead of a salary reduces Jill's NIC bill by £855.

Whilst this example highlights that it possible to arrange matters and potentially obtain tax and/or NIC savings, such savings should never be the only consideration in determining company profit extraction strategy.

Questions and answers

Q. I have recently started running my own business providing training services. HMRC have advised me that VAT is not charged on the type of services I am providing. Does this mean that my services are zero-rated for VAT or actually exempt? Do I need to register for VAT?

A. Although both zero-rated and exempt supplies result in no VAT being applied to the supply, the consequence is very different between them and it is important to get it right.

Zero-rating is a rate of VAT, albeit at zero per cent. The goods and/or services to which it applies are taxable supplies. This, in turn, renders any supplier of zero-rated goods and/or services liable to register for VAT, where appropriate (see the GOV.uk website at https://www.gov.uk/vat-registration for further information on registration). The advantage of VAT registration is that VAT can be reclaimed on costs. However, a business making solely exempt supplies is not making taxable supplies, so cannot register for VAT. Consequently, all VAT incurred upon expenditure becomes an additional irrecoverable cost. Where a supply could be either zero-rated or exempt, zero-rating will take priority.

Q. I am a company owner and employer. One of my key employees has recently become ill and requires medical treatment. If the company pays for the treatment directly on her behalf, will the employee have to pay tax on it?

A. Expenditure by employers on medical treatment for employees is generally chargeable to income tax either as a payment of earnings or as a taxable benefit.

However, an exemption from income tax applies where an employer funds recommended medical treatment where the recommendation itself meets certain specific requirements. This means that expenses incurred by an employer to cover medical treatment which is recommended to an employee for the purposes of assisting the employee to return to work after a period of absence due to injury or ill health should not be treated as a chargeable benefit on the employee. The exemption applies to expenditure up to a cap of £500 per tax year per employee.

Further information on this subject can be found in HMRC's *Employment Income Manual* at paragraph EIM21774.

Q. I have recently purchased three properties which I intend to rent out. I envisage that I will need to spend a considerable amount of time each year undertaking various necessary repairs. Can I pay myself say, an hourly rate, for the time I spend on the properties and claim a corresponding deduction against my rental income?

A. Any amounts taken from the property rental business will simply be viewed as a withdrawal of profits from the business and taxed accordingly. The HMRC *Property Income Manual* at paragraph PIM2210 states:

'A landlord can't deduct anything for the time they spend themselves working in their own rental business. They can deduct any wages or salaries they pay to their spouse, civil partner or other relations for working in the rental business provided the amounts paid represent a proper commercial reward for the work done. The spouse, civil partner or relative will be taxable on their earnings if their income is large enough.'

Q. Do all assets qualify for the capital allowances Annual Investment Allowance?

A. Unfortunately, not all expenditure on plant and machinery will qualify for annual investment allowances (AIA). The most common examples of assets that are not eligible are cars and assets that have been used for some other purpose before being brought into the business, for example, a personally owned computer. These assets should still qualify for capital allowances, but allowances will be given gradually over several years, rather than the full cost being allowed against income all at once, which is what the AIA gives.

The AIA was set at its current level of £200,000 from 1 January 2016, but it was increased to £1,000,000 for a temporary period of two years from 1 January 2019. It is therefore currently expected that the allowances will revert to £200,000 from 1 January 2021.

Q. Due to cash flow difficulties I have not yet paid my self-assessment payment on account, which was due on 31 July 2019. I realise that I will have to pay interest on the amount outstanding, but will I also have to pay penalties?

A. HMRC charge interest on any tax paid late. The current rate in force is 3.25%.

With regards to penalties, you will only be charged if your balancing payment (due 31 January 2020) is late. The penalties for late payment under self-assessment are as follows:

- 30 days late: 5% of the unpaid tax
- 6 months late: an additional 5% of the unpaid tax
- 12 months late: an additional 5% of the unpaid tax.

HMRC may reduce a late payment penalty in 'special circumstances', which does not include the inability to pay. In addition, a defence of 'reasonable excuse' may be available.

In relation to payments on account, the maximum penalty for fraudulent or negligent claims by taxpayers to reduce payments on account is the difference between the correct amount payable on account and the amount of any payment on account made.

Q. My wife doesn't work. Can she transfer her unused personal tax allowance to me?

A. It is possible for a spouse or civil partner who is not liable to income tax, or not liable above the basic rate for a tax year, to transfer part of their personal allowance to their spouse or civil partner, provided that the recipient of the transfer is not liable to income tax above the basic rate.

The transferor's personal allowance will be reduced by the same amount. For 2019/20 the amount that can be transferred is £1,250. The spouse or civil partner receiving the transferred allowance will be entitled to a reduced income tax liability of up to £250 for 2019/20.

If you make the claim before 6 April 2020 for the tax year 2019/20, the claim continues until either you withdraw it or the recipient spouse or civil partner does not obtain a tax advantage. On the other hand, if you make the claim after the end of the relevant tax year, it will only have effect for the tax year to which the claim relates. So, if you make a claim after 5 April 2020 for 2019/20, you would need to make another claim for 2020/21 if appropriate.

The claim can be made up to four years from the end of the relevant tax year. In other words, a claim for marriage allowance for the tax year 2019/20 must be made by 5 April 2024.

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'. 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.

ICAEW CHARTERED ACCOUNTANTS

HANLEY & CO - ACCOUNTANTS YOU CAN TALK TO

18 Church Street, Ashton under Lyne, Lancashire, OL6 6XE
Unit 15, Olympic Court, Whitehills Business Park, Blackpool, FY4 5GU