Welcome...

To November's Tax Tips & News, our newsletter designed to bring you regular tips and news.

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 about your specific circumstances. **We're here to help!**

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CJRS - Furlough Scheme extended until March 2021

Coronavirus Job Retention Scheme (CJRS) - also known as the Furlough scheme - will remain open until March 2021, with employees receiving 80% (to be reviewed from January) of their current salary for hours not worked, up to a maximum of £2,500.

This means the extended furlough scheme is far more generous for employers than it was in October.

Employers small or large, charitable or non-profit, are eligible for the extended Job Retention Scheme, which will continue until March 2021.

Businesses will have the flexibility to bring furloughed employees back to work on a part-time basis or furlough them full-time, and will only be asked to cover wages for any hours worked plus all the National Insurance and employer pension contributions which, for the average claim, accounts for just 5% of total employment costs.

The eligibility rules for this scheme have been changed and we expect **more** employees will be eligible than previously. To be eligible to be claimed for under this extension, employees must be on an employer's PAYE payroll by 23:59 30th October 2020. This means a Real-Time Information (RTI) submission notifying payment for that employee to HMRC must have been made on or before 30th October 2020. **Many staff who were not eligible for the old CJRS scheme can now be furloughed, if necessary.**

For new employees, the 'reference pay' (on which furlough payments are calculated) will be the last pay period before 30 October if the employees are paid regular fixed amounts. If the employees' wages are variable their wages are averaged since they joined the employer to set the reference pay.

Newly furloughed employees will need a written furlough agreement (to be retained by the employer for six years) which may be requested by HMRC in the future.

As under the current CJRS rules:

- Employees can be on any type of contract.
- Employers will be able to agree on any flexible working arrangements with employees, if applicable.
- Employers can claim the grant for the hours their employees are not working, calculated by reference to their usual hours worked in a claim period. Such calculations will broadly follow the same methodology as currently under the CJRS.
- When claiming the CJRS grant for furloughed hours, employers will need to report and claim for a minimum period of 7 consecutive calendar days.
- Employers will need to report hours worked and the usual hours an employee would be expected to work in a claim period.
- For worked hours, employees will be paid by their employer subject to their employment contract and employers will be responsible for paying the tax and NICs due on those amounts.

What support is being provided and employer costs?

- For hours not worked by the employee, the government will pay 80% of wages up to a cap of £2,500, per employee. The grant must be paid to the employee in full.
- Employers will pay employer NICs and pension contributions and should continue to pay the employee for hours worked in the normal way.
- As with the current CJRS, employers are still able to choose to top up employee wages above the scheme grant at their own expense if they wish.
- The Government recently confirmed that claims can be made from mid-November 2020 and can include claims for projected wages costs up to 14 days in advance.

The Job Support Scheme, which was scheduled to come in on Sunday 1st November, has been postponed until the furlough scheme ends.

Covid-19: SEISS - for Self Employed people (not limited companies).

Millions of self-employed individuals have already been eligible to receive two direct cash grants through the government's Self-Employment Income Support Scheme (SEISS), to help them during the coronavirus outbreak.

The **government says it will provide two further taxable grants to support <u>those experiencing reduced demand</u> due to Covid-19** but are continuing to trade, or temporarily cannot trade.

Payments will be available to anyone who was previously eligible for the SEISS grants and meets the eligibility criteria.

Future grants will be paid in two lump sum instalments each covering three months.

The third grant will cover three months from the start of November 2020 until the end of January 2021. The government will pay a taxable grant which is calculated based on 8**0%** of three months' average trading profits, paid out in a single instalment and capped at £7,500. This grant will be claimable from 30 November 2020 (by the taxpayer, as before).

The fourth grant will cover three months from the start of February until the end of April 2021. The government will review the level of the second grant and set this in due course.

May we remind you - self-employed people are allowed to carry on working if they can. The SEISS is not dependent on 'not working' or how much income is lost.

However, there is a new condition for claiming: At the point of making each future claim the claimant **must be able to prove that demand for their goods or services is below normal levels.**

For some clients, it is (fortunately) 'business as normal' during the last few months. We urge those businesses **not to claim** further grants unless they can prove (and keep records to show) that their turnover has reduced.

If in doubt please contact us to discuss.

Bounce Back Loan scheme extended

The scheme helps small and medium-sized businesses to borrow between £2,000 and up to 25% of their turnover. The maximum loan available is £50,000. The government guarantees 100% of the loan and there won't be any fees or interest to pay for the first 12 months. After 12 months the interest rate will be 2.5% a year.

The scheme has been extended and is now open to applications until 31 January 2021.

Business Grants for businesses legally required to close during the lockdown.

Businesses required to close in England due to local or national restrictions will be eligible for the following:

- For properties with a rateable value of £15k or under, grants to be £1,334 per month or £667 per two weeks;
- For properties with a rateable value of between £15k-£51k grants to be £2,000 per month or £1,000 per two weeks;
- For properties with a rateable value of £51k or over grants to be £3,000 per month or £1,500 per two weeks.

These claims will be made through the local authorities (details on their websites).

Importing goods from 1 January 2021

The process for importing goods from the EU will change. Businesses in Great Britain need to complete the following actions to continue importing from EU countries from 1 January 2021.

At the moment matters are very much "in progress" with HMRC compiling lists of customs agents and fast parcel operators to help businesses import goods post 1 January 2021.

DECLARING GOODS FROM 1 JANUARY 2021

From 1 January 2021, you will need to make customs declarations when you import goods from the EU. These rules currently apply to importing goods from the rest of the world, including Switzerland, Norway, Iceland and Liechtenstein.

You can make the declarations yourself or hire someone else such as a courier, freight forwarder or customs agent.

HIRING A PERSON OR BUSINESS TO DEAL WITH CUSTOMS FOR YOU

You can hire a person or business to deal with customs for you, such as:

- freight forwarders
- customs agents or brokers
- fast parcel operators

What they can do for you (and who will be liable) depends on:

- the services they provide

- what you want them to do
- the commercial agreement you have with them

From 1 January 2021, they will need to be established in Great Britain or Northern Ireland.

FREIGHT FORWARDERS

Freight forwarders move goods around the world for importers.

A freight forwarder will arrange to clear your goods through customs. They will have software to communicate with HMRC's systems. You can find out how to use a freight forwarder on the British International Freight Association and Institute of Export websites.

The most important advice at this stage is every importing business will need a UK Economic Operators Registration and Identification (EORI) number.

If you don't have one we urge you to apply now. It is a simple process and once you receive your EORI number it will (we understand) be in the format GB yourvatnumber 000. However, this number will not be valid until you have registered and claimed it!

Businesses that are not VAT registered will be given a dummy VAT registration number with an EORI number in the same format.

To apply for an EORI number see: https://www.gov.uk/eori

What changes with VAT when you import goods in 2021 and what is postponed accounting?

Currently, businesses importing goods **pay the VAT** when the goods enter the country usually to their customs clearance agent and they receive a claimable C79 VAT certificate. Essentially the company can reclaim the VAT on their VAT return covering the payment date - as if they had paid a UK supplier input VAT.

Postponed accounting for import VAT will be available for all UK VAT registered businesses that import goods into the UK after 1 January 2021.

Instead of paying VAT at the point of importation of goods into the UK, a business will report this VAT on the VAT return. This is using a reverse charge mechanism, providing the business with a cash-flow benefit.

HMRC will make available downloadable online statements every month. These digital statements will show all import VAT postponed for the previous month that needs to be included on the businesses VAT return.

This will then be included on the VAT return as follows:

- Box 1 – Include the VAT due in this period on imports accounted for through postponed VAT accounting;
- Box 4 – Include the VAT reclaimed in this period on imports accounted for through postponed VAT accounting;

  Note that Box 1 and Box 4 will be the same figures. Therefore no effect on the liability.

- And Box 7 – Include the total value of all imports of goods included on your online monthly statement, excluding any VAT

Hanley & Co – helping you from home and always available

All our staff have worked from home since March 2020 and we have decided to extend this arrangement through until March 2021 (at least). All our staff can be contacted by telephone or email.

New and existing clients can arrange telephone calls or Zoom /Skype meetings – with any of the staff or with Dean Logan, as required.

Our office at Church Street will remain closed through until March but any post delivered to the office by Royal Mail or by hand through the letterbox is collected from the office every few days and is distributed promptly throughout the firm as required.

Clients needing to drop off bookkeeping records for our staff can now also deliver to:

(Our new office reception) - Hanley & Co, Suite 204 Ashton Old Baths, Stamford Street West, Ashton, OL6 7FW.

OR

Hanley & Co, Olympic Court, 15 Boardmans Way, Whitehills Business Park, Blackpool, FY4 5GU

MTD to be extended to all VAT registered business and then Self Assessment

Since 2019, the vast majority of VAT-registered businesses with a taxable turnover above the VAT threshold (£85,000) have been mandated to keep digital VAT records and send returns using Making Tax Digital (MTD)-compatible software.

From April 2022 these requirements will apply to all VAT-registered businesses.

It has also been announced that MTD for Income Tax Self-Assessment (ITSA), which was originally intended to start in 2018, will finally be introduced from April 2023 for unincorporated businesses and landlords with total business or property income above £10,000 per year.

Most businesses will have 2 years to prepare and test the service voluntarily before its introduction.

HMRC already detecting CJRS fraudulent claims

HMRC's CJRS fraud reporting portal had received over 2,000 reports of wrongful claims.

Examples of such wrongful claims include;

- Claiming furlough payments for staff who are continuing to work
- Furloughing staff but asking them to work "voluntarily" on an unpaid basis.
- Claiming furlough payments for "ghost" employees, and those who left employment before 19 March 2020.
- Not passing on the full amount of furlough pay to staff.
- Failing to account for PAYE tax and NIC concerning furlough payments

HMRC also have the power to transfer CJRS penalties to the directors of an insolvent company if their company does not pay them. We, therefore, suggest that employers should check the accuracy and validity of their CRJS claims as a matter of priority, and ensure that any inaccuracies or errors are disclosed to HMRC as quickly as possible. We can of course assist you in checking claims.

Kickstart scheme for employers

Under the new Kickstart programme, the Government hopes to create roles for as many as 250,000 young people who are currently receiving Universal Credit (UC).

Initially announced in the July Economic statement, the details of the scheme have now been published and the first placements should be available from November.

Kickstart allows employers to receive funding for six-month work placements for 16 to 24-year-olds currently receiving UC, who are seen to be among the most vulnerable to unemployment.

Funding applications must be for new jobs - with the funding conditional on the firm proving they are additional jobs. This means that they cannot be replacing existing or planned vacancies, and they must not cause existing employees or contractors to lose or reduce their employment.

Under the scheme, the Government will pay 100% of the relevant National Minimum Wage (NMW) for 25 hours a week. Rates for 16 to 24-year-olds are currently as follows:

- Age under 18 - £4.55 per hour
- Age 18 to 20 - £6.45 per hour
- Age 21 to 24 £8.20 per hour

Under the scheme, the Government will also pay the associated employer National Insurance Contributions (NICs) and employer minimum automatic enrolment pension contributions, where applicable.

There is also £1,500 per job placement available for setup costs, uniforms, support and training, Employers will, however, need to show in their application how they intend to help the participants to develop their skills and experience, including:

- support to look for long-term work, including career advice and setting goals;
- support with CV and interview preparations; and
- supporting the participant with basic skills, such as attendance, timekeeping and teamwork;

Once a job placement is created, it can be taken up by a second person once the first successful applicant has completed their six-month term.

According to the Department for Work and Pensions (DWP), there will also be extra funding to support young people to build their experience and help them move into sustained employment after they have completed their Kickstart scheme funded job.

The scheme initially attracted some criticism because employers taking on fewer than 30 new young workers were prevented from applying directly for funds. However, it has now been confirmed that employers who are unable to meet the placement numbers condition can partner with other organisations to reach the minimum number requirement. Moreover, the representative applying on behalf of the group can claim additional funding of £300 per job placement to support the associated administrative costs of bringing together the employers.

Smaller businesses may also be able to apply through an intermediary, such as a Local Authority or Chamber of Commerce, who will then bid for 30 or more placements as a combined bid from several businesses. This will make the process easier and less labour intensive to apply for these smaller companies can only consider hiring one or two
The scheme, which will be delivered by the DWP, will initially be open until December 2021, with the option of being extended. Funding applications can be made online.

Reporting property capital gains to HMRC within 30 days

Since 6 April 2020 where UK residential property is disposed of, the resulting capital gain needs to be reported and the Capital Gains Tax paid within 30 days of completion of the disposal.

There have been several teething problems with the new online reporting system and HMRC stated that there would be no penalties imposed for late returns, provided the returns were submitted by 31 July 2020. Taxpayers need to obtain a Government Gateway account and apply for a CGT or property reference number to report disposals, although they can authorise their accountant to report the disposals on their behalf.

Currently, only the first disposal may be reported using the online reporting system with any subsequent disposals being reported using a paper return. We have been told that the new system will be fully functional shortly.

Helping employees with cheap loans

In the current difficult economic client, employees may need to approach their employer for financial assistance in the form of a loan. Under the strict letter of the law, a tax charge will arise where a director or employee obtains a benefit by reason of their employment when they, or any of their relatives, is given a cheap or interest-free loan. The tax charge generally arises on the difference between interest at the appropriate 'official rate' (currently 2.25%) and the interest, if any, actually paid. Such loans are called beneficial loans.

However, subject to satisfying a few conditions, as long as the total amount outstanding on all loans from an employer to an employee does not exceed £10,000 at any time in the tax year, then the **loans are ignored for the purposes of the rules on beneficial loans for both income tax and national insurance contributions purposes**.

No taxable benefit-in-kind will arise where:

- the loan has been made on commercial terms by employers who lend to the general public; or
- the total of all loans made to an employee does not exceed £10,000 at any time in the tax year.

It is important to remember that this is an all or nothing exception. If, however briefly, the loan balance rises above £10,000 at any time in the tax year, then the exception will not be available and the benefit-in-kind will be taxed in full.

Example

In September 2020, Bridgette (a higher rate 40% taxpayer) asks her employer for a loan to help pay for her seasonal bus pass for £2,320. To pay for this out of her take-home pay she would need to receive gross pay of £4,000 (£4,000 less tax at 40% (£1,600) and Class 1 NICs at 2% (£80)).

If her employer gives her an interest-free loan of £4,000 to enable her to buy the season ticket, it only costs Bridgette the £4,000 she borrows and subsequently repays to her employer. Providing the total of all beneficial loans made to Bridgette by her employer is less than £10,000, no taxable benefit arises, so the cost of the benefit is nil.

Also, since the loan is not salary, Bridgette's employer will not have to pay secondary Class 1 NICs on the amount borrowed.

As a final point, it should be noted that loans to directors are prohibited under the Companies Act 2006, though loans not exceeding £10,000 are permitted and larger loans may now be made with the approval of the members. It is always worth seeking professional advice before extracting money from a limited company.

Improving your sales strategy

In today’s challenging trading environment, a good sales strategy is essential.

Talk to existing customers

Your current customers are one of your best sources of information. Your existing client base can provide you with valuable feedback about what worked and didn’t work for them during the sales process. Similarly, current customers are an excellent source of additional revenue.

You’ve already converted them once.

It’s easier to cross-sell to an existing customer than it is a new one as you have already won their trust.

Seek feedback from customers who went elsewhere

Take the time to ask those who went elsewhere for feedback. Ask them why they chose to go with another product or service provider and what you could do better. Any feedback they provide can help you to improve and refine your current sales process. In some cases, speaking to failed customers may give you a second chance to pitch to them for their next purchase.

Listen to your prospects

This is straightforward but it is often overlooked. Before trying to sell to a client take the time to listen to them, to understand their needs, then offer them a solution. Train your sales team to actively listen and encourage them to ask the right questions to get more information from potential buyers.

The best sales teams are solution-oriented – they focus on why a customer needs to buy a product or service and then help them to choose the right solution for their needs.

Understand the competition

Take the time to understand your competitors, their offerings and their sales strategies. Ensure that your sales team know what sets your product or service apart so that they can handle objections from potential clients. Perhaps the products are similar but your firm offers better service, better back-up or more flexibility.

Referrals

Encourage your sales team to ask existing clients for referrals. Your current clients are a great asset in that they can provide you with referral opportunities.

If you know that a particular client is happy with your product or service, ask them if they know anyone else who may be interested in your current offerings.

If a customer sends you a referral, make sure to get in touch to say thank you. If you successfully win a new piece of business, then go the extra mile and send a thank you gift to your client for the referral. Not only will they think your firm is great, but they will also probably tell some of their friends too!

Cultivating creativity

Creative businesses tend to be successful – just look at Google, Netflix and or Amazon. So how do you cultivate creativity in your business?

You can't force creativity, but the right environment will enable your team to work in new and innovative ways to generate imaginative solutions. Business is all about people. Hiring talented people is the first step in cultivating an innovative and creative business. Look for team members who understand your vision and align with your culture.

Having a team that shares one vision and works together will help the firm run smoothly. This doesn't mean only hiring people who always agree with you - encourage different perspectives as this could generate creative new ideas.

Businesses are becoming more focused on diversity and this can help to drive creativity. People from different backgrounds may have the experience that allows them to come up with new and innovative solutions. The most creative businesses know this and put together teams of people with different capabilities, backgrounds and interests to encourage different approaches to problem-solving. To become more creative, your business should celebrate new ideas, encourage different approaches and try thinking outside the box.

Creative businesses tend to have a more flexible approach to work. Some of the most successful businesses have moved away from the traditional 9-5 working day and allow employees to work whenever suits them best. After all, some people are night owls and others are early risers.

Allowing staff to choose to work when they are well-rested and performing at their best can only be a good thing. If you show your team that you trust them to work flexibly, they are more likely to feel empowered and this tends to drive employees to perform at a higher level.

Finally, make sure you encourage your people to take regular time off. Nobody can work at 100% all the time. Worn down workaholics don't produce high quality, creative ideas. Communicate with your people and convey how important it is to get some rest and have time off throughout the year. Make it non-negotiable. Giving your people time to switch off completely will help them to be more creative when they return. After all, some of the best ideas are generated away from work, when thinking about something else entirely.

Applying for a customs grant

The next phase of the customs grant scheme is now open for applications. It sees a record £50 million investment as part of the measures to accelerate the growth of the customs intermediary sector and help meet the increased demand it will see from traders at the end of the transition period.

Broadly, there are three grants available to help businesses complete customs declarations.

A business can apply to get funding for:

- training that helps the business to complete customs declarations and processes;
- hiring new staff to help the business complete customs declarations; and
- IT improvements to help the business complete customs declarations more efficiently.

The grant can cover salary costs for new or redeployed staff, up to a limit of £12,000 per person and £3,000 for recruitment costs for new employees. This will help them to recruit new staff and train them up ahead of July 2021, when all traders moving goods will have to make declarations.

The grant scheme will continue to offer financial support for training costs to upskill staff and for IT that will allow greater efficiency. The grant for IT will cover expenses for increasing capacity or productivity for customs declarations, customs software, set-up costs, and related hardware.

Who can apply?

The business must:

- have been established in the UK for at least 12 months before the submission of the application and when the grant is paid; and
- not have previously failed to meet its tax obligations

In addition, the businesses must meet one of the descriptions below:

- complete or intend to complete customs declarations on behalf of clients;
- be an importer or exporter and complete or intend to complete declarations internally for its own goods;
- be an organisation which recruits, trains and places apprentices in businesses to undertake customs declarations.

Grants will be issued on a first-come, first-served basis. Applications will close on 3 June 2021, or earlier if all funding is allocated. The grant scheme is administered by PricewaterhouseCoopers (PwC) on behalf of HMRC.

For more information on the scheme and how to apply, see the GOV.uk website.

Running effective meetings - virtually

Over the course of the past few months, we have all had to adapt to working remotely.

Despite lockdown restrictions, many businesses have found ways to move their operations online, with all staff working remotely. This has given rise to an increased volume of virtual meetings on services such as Skype, Zoom, Teams, WebEx or other popular online meeting services. This has resulted in a new challenge - how to have an effective virtual meeting.

Agenda

Just like any meeting, take the time to set an agenda and circulate it in advance of the call along with any supporting documents.

Setting an agenda and sticking to it helps to keep the virtual meeting on track. If there are lots of documents, make sure that you circulate them in time to allow people to read them well in advance.

Choose the right technology

There is nothing more frustrating than dialling into a video or conference call and not being able to connect due to a technical glitch. Before you set up your virtual meeting, check with the attendees that they are comfortable (and able) to use your platform of choice. If possible, use a system that allows users to join via a web browser - most platforms such as Skype, Teams, Zoom, WebEx, etc. allow this.

Etiquette

A virtual meeting is still a meeting, so make sure you give it your full attention. Ask all attendees to use video - this makes it harder for them to do something else during the virtual meeting as they will be on everyone’s screen. Also, seeing people on screen can help those who have been working from home during COVID-19 to feel more connected.

Jump into the content

Don’t waste time (yours or other people’s) during a virtual meeting. Keep it short and get straight into the agenda. Aim to follow up within 24 hours of the meeting with any relevant action points as it keeps people’s attention. By sending the notes around 2 weeks after a meeting, momentum on any actions may be lost.

Questions and answers

Q. I am approaching retirement age and I am looking forward to receiving my state pension. Will I have to pay tax on it?

A. The state retirement pension currently counts as taxable income. However, whether you have to pay tax on it will depend on the level of other taxable income you receive.

If your state pension exceeds your personal tax allowance (£12,500 in 2020/21), but you do not have any other source of income, then HMRC will collect the tax in a lump sum through another method. You will be sent Simple Assessment (PA302 calculation). You will need to check that the figures are correct and pay by the following 31st January. If you don't agree with the figures, you should contact HMRC immediately as late payment interest will start after the payment deadline.

There is no mechanism to deduct tax due at source so those pensioners with occupational pensions have their personal tax allowance reduced by the amount of the state pension so that the tax due on both sources is all deducted from the occupational pension.

Q. I have recently been able to reopen my small hotel and I am selling face value gift vouchers which can be redeemed against room reservations and/or in the dining room and bar. I have previously charges VAT at the standard rate for all supplies. How does the temporary VAT rate affect my business?

A. A new temporary reduced rate of 5% applies, from 15 July 2020, to sleeping accommodation in hotels and similar establishments, on-premises catering services, hot takeaway food and drink and admissions to certain attractions. This rate can be applied until 12 January 2021.

You can charge VAT at the reduced rate on room reservations and on-site dining until 12 January 2021, but the supply of alcoholic drinks remains at the standard 20% rate.

The changes affect the accounting treatment for VAT when issuing face value vouchers. There are two main types, as follows:

- Single purpose face value vouchers (SPFVV). Where at the time of issue, the goods or services have a single VAT liability and the place of supply is known.
- Multi purpose face value vouchers (MPFVV). These are vouchers which do not fall within the definition of a SPFVV.

For vouchers issued and/or redeemable whilst the temporary reduced-rate is in place, the treatment will change from that of a SPFVV to a MPFVV.

A voucher issued up to 12 January 2021 will be a MPFVV, because the liability of the underlying goods or services is not known and spans across two different VAT rates. You will need to account for any VAT on redemption for this particular type of voucher, instead of when it is issued.

Gift vouchers issued after 12 January 2021 will return to being SPFVV's, as all supplies will be subject to a single rate of VAT at the standard rate and VAT should be accounted for on issue not redemption.

HMRC Brief 10/2020 provides further details on the temporary rate change.

Further guidance on vouchers can be found in VAT Notice 700/7, at section 9.

Q. My mother is a widow in her nineties but still lives in the same house that she and my late father bought in the early 1960s. I also lived there from birth until I married and moved out in 1990. Will I be able to claim inheritance tax (IHT) relief for the time that I lived there?

A. Unfortunately, the period that you lived in the house will not count because you did not own the house at that time. However, it may not be all bad news for IHT purposes. If your father left everything to your mother when he died, she may well have inherited his 'nil rate band'. In addition there are 'residence nil rate band' rules increasing the IHT nil rate band when the asset passing on death to the descendants of the deceased is the house that the deceased lived in.

Q. My mother gave my daughter £5,000 on 1 May 2016. She had not made any other gifts in previous years. Unfortunately my mother passed away on 1 September 2020. How much of the gift she gave to her granddaughter is chargeable to inheritance tax?

A: Since your mother did not make any other gifts, the gift she made to your daughter will be covered by inheritance tax annual exemptions - £3,000 for 2016/17 plus her unused exemption brought forward from 2015/16 (£3,000 available).

Q. I am a self-employed builder. I carried out a job for a customer and invoiced him for £750. The customer did not pay the invoice and I have since discovered that he has been declared bankrupt. I included the £750 in my turnover figures. Can I claim tax relief for the unpaid bill?

A: A deduction can generally be made for a bad or doubtful debt in the year in which the debt becomes bad or doubtful. The HMRC Business Income Manual (at BIM42701) states:

'A deduction is not allowed for a debt owed to a trader **except**:

- a bad debt;
- a doubtful debt to the extent estimated to be bad. In the case of the bankruptcy or insolvency of the debtor this means the debt except to the extent that any amount may reasonably be expected to be received on the debt;
- a debt or part of a debt released by the creditor wholly and exclusively for the purposes of the trade as part of a statutory insolvency arrangement.'

You should be able to write off the debt and claim a deduction of £750 in your accounts.

Q. I have recently become unemployed due to the coronavirus pandemic so I am going to rent a room out in my home to get some extra income. What are the tax implications if this is my only source of income?

A: HMRC's rent-a-room scheme is an optional exemption scheme, which allows individuals to receive up to £7,500 of tax-free gross income (income before expenses) from renting out spare rooms in their only or main home. The exemption is halved where the income is shared with a partner or someone else. Broadly, as long as income is below the annual threshold, it does not need to be reported to HMRC. If income exceeds the threshold, it needs to be reported to HMRC via the self-assessment system.

To work out whether it is preferable to join the scheme, the following methods of calculation should be compared:

- **Method A**: paying tax on the profit from letting worked out in the normal way for a rental business (ie rents received less expenses).
- **Method B**: paying tax on the gross amount of receipts (including receipts for any related services they provide) less the £7,500 exemption limit.

If you make an election (within the time limit) for Method B to apply, the first £7,500 will be tax-free, and the remainder will be covered by your income tax personal allowance, so will be tax-free. The remainder is calculated as your gross rental receipts over and above the £7,500 figure, without any deduction for expenses.

Q. I am a sole trader trading as a graphic designer. I am voluntarily registered for VAT and I have several commercial clients who are also registered for VAT. Due to the coronavirus outbreak my graphic design business is very quiet, so to supplement my income I want to buy and sell bicycles to private individuals. Can I run the bicycle business as a different non VAT-registered business whilst keeping the graphic design business registered for VAT?

A. HMRC's VAT Registration manual at VATREG02200 states that 'In all cases it is the person (natural or legal) rather than the business which is registered, so a trader must take into account all their business activities'. Therefore, in your situation it may be beneficial to deregister the graphic design business for VAT purposes. You can always re-register as and when this side of your business picks up again.

Q. My father died in 2019 and my brother and I inherited a small commercial business unit. Probate is nearly complete now. If we sell the property in the future, will capital gains tax be payable on the disposal proceeds?

A. The acquisition value for future capital gains tax computation purposes will be the market value at the date of death. This is known as the 'probate value'. Capital gains tax will be calculated under the normal rules on any increase in value from that date until the date of disposal.

Q. How long do I need to keep VAT records for?

A. VAT-registered businesses must:

– keep records of sales and purchases;
– keep a separate summary of VAT; and
– issue correct VAT invoices

In the UK, VAT records must be kept for at least six years (or ten years if the trader uses the HMRC VAT mini-one-stop-shop (VAT MOSS) service). VAT records may be kept on paper, electronically or as part of a software program (e.g. book-keeping software) – but whichever method is used, the records must be accurate, complete and readable. HMRC can visit businesses to inspect record-keeping and impose penalties if the records are not in order.

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-five years experience as practising accountants. We have clients across the North West of England and some even further afield.

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

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