Welcome...

To March'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!

March 2019 Newsletter

Brexit – What now for businesses that trade with the EU?

"There is still uncertainty around what Brexit will mean and planning for a "No Deal" scenario seems sensible right now. Businesses that buy and sell from the EU should have contingency plans in place which will need to be flexible to cope with a variety of possible outcomes. If a 'No Deal' happens after March 2019 here are some of the areas you should consider."

Movement of goods

Customs declarations will need to be made and the UK is implementing a new electronic customs declaration system for businesses, so check if your systems and processes are up to scratch. UK businesses will need a UK Economic Operator Registration and Identification (EORI) number and you can find the forms on the Gov.uk web site, Brexit section: https://www.gov.uk/government/brexit

You may also need an agent to help with import/export declarations as you would for trading outside the EU. Check whether you need additional information from your carrier. Importers can register for Transitional Simplified Procedures (TSP) deferring declarations and paying duty at the border. More on this on page 3, and there is HMRC guidance on the new electronic customs system in the Brexit section on the Gov.uk website (link as above).

An essential exercise for all businesses is Supply Chain Mapping - knowing where inputs come from and what product category they fall into can help assess potential tariffs. For businesses that only exported to the EU, this will be new and could be time-consuming. Further guidance can be found in the "Trade Topics" section of the World Trade Organization website: https://www.wto.org/index.htm.

The EU Tariffs can be found at http://madb.europa.eu/madb/euTariffs.htm

Product compliance

UK product standards and regulations will be aligned to the EU at the point of exit, however in the event of "No Deal" then UK assessment and certification arrangements could cease to be recognised by the EU. See the Brexit section of the Gov.uk website for further guidance.

Business contracts and employees

If you have contracts with EU companies these may need to be redrafted to clarify the terms for trade, including VAT changes. If your business employs EU nationals then they should register for settled status. You will need to track the nationality status of employees going forward to ensure compliance with immigration rules and regulations.

Summary

Whether there is a "No Deal", a brief delay in the UK's departure and a "deal" or a longer period of transition we advise all businesses to research all scenarios and "plan for the worst and hope for the best".

Becoming a more resilient leader

We live in uncertain times. As such, business leaders need to be able to deal with temporary setbacks and recover quickly when things go wrong.

Managers and business owners are faced with different challenges every day. These might include managing conflicts, dealing with increasing regulatory change or difficult trading conditions. Having the ability to cope effectively when under pressure is essential. So how do you become a more resilient manager?

Focus on your strengths

In the face of adversity, remember the strengths that have gotten you where you are and ask yourself how they can be applied to overcome the current challenge.

Take time to reflect

Whether you're celebrating success or enduring tough challenges, make time to reflect. Reflection fosters learning and helps you to develop new perspectives and a degree of self-awareness that can enhance your resilience.

Don't ignore the negative

Resilient managers see negatives and risks, but don't dwell on them. Instead, focus on reframing issues in a more proactive direction. Negative challenges are best seen as opportunities to learn.

Define your purpose

Developing a sense of purpose gives your work meaning and helps you put it into a larger context. A clear sense of purpose helps you to assess setbacks within the framework of a broader perspective. It also helps others in your firm to understand what you are trying to achieve.

Build relationships

Resilient business leaders build relationships with colleagues and bring those colleagues along with them. Developing good relationships with colleagues creates a strong base of support which is critical in helping managers to achieve objectives, develop perspective and make difficult decisions.

Specialist advice for E-commerce businesses / Amazon resellers

Hanley & Co advice many E-commerce businesses from across the UK and also overseas traders. In this rapidly expanding marketplace, we aim to be the natural choice for any new online trader business – wherever they are.

Here are some of the areas we have advised our clients about recently:

Advising overseas companies trading through Amazon UK regarding UK VAT registration, advice on VAT schemes, calculating and declaring accurate VAT liabilities.

Setting up a UK limited company specifically for Amazon.Com USA trading and advice regarding GST responsibilities, liabilities and systems.

Advising E-commerce companies regarding Kashflow, Xero, Quickbooks, Freeagent, Sage and Pandle online bookkeeping systems. Ensuring Making Tax Digital compliance – as required by HMRC from April 2019.

Advising smaller online traders on correct VAT registration responsibilities and assisting with delaying / deferring the registration where advantageous.

Advising numerous Amazon businesses on data extraction from Seller Central to ensure correct VAT liability declared.

Advising growing online trader companies on transition out of the Flat Rate VAT scheme.

Advising companies on transition through EU distance selling regulations and assisting with EU VAT registrations.

Assisting E-commerce clients considering expanding into Amazon EU platform.

From brand new E-commerce traders to £m turnover established multichannel businesses – Hanley & Co can help.

HMRC reaffirm income tax charge on winding up

HMRC have published Spotlight 47, which provides guidance on tax avoidance schemes that try to avoid the income tax charge on distributions when a company is being wound up.

In recent years, HMRC has endeavoured to prevent schemes being used by shareholders to take advantage of more favourable capital gains tax rates when extracting value from their company.

Until 6 April 2016, under arrangements known as 'phoenixism', an individual shareholder who intended to carry on the company's activities could arrange matters enabling them to wind up the company and receive the company's undistributed profits. The profits would be classed as capital distribution (subject to capital gains tax rates), rather than a dividend or other income distribution (subject to higher income tax rates). The individual would then carry on the same or similar activity, often using a newly-formed company.

To counter this perceived avoidance, **in 2015 HMRC introduced Targeted Anti-avoidance Rule**(TAAR) legislation to prevent individuals from gaining a tax advantage by winding up companies, to make sure any distribution in the winding up is taxed as income, rather than being subject to capital gains tax.

Some scheme promoters have recently claimed that they can get around the TAAR legislation by making an artificial modification of the arrangements (for example by selling the company to a third party rather than winding it up). However, HMRC are adamant that such schemes do not work because:

- in many cases, the actual outcome is that the individual is receiving distributions in a winding up - as the individual carries on trading using a different vehicle these schemes are within the scope and purpose of the TAAR legislation; and
- phoenixism arrangements that claim to involve payments to shareholders taxed as capital instead of income are caught by the TAAR, or other provisions.

HMRC have said that they will investigate any attempts to avoid the income tax charge. If it is claimed that the phoenixism TAAR does not cover the arrangements, HMRC will consider whether the General Anti-abuse Rule (GAAR) applies to these schemes. HMRC have reaffirmed that a severe penalty regime exists for such schemes.

Checking directors' expenses

As 31 March approaches, many companies will be getting ready to tie up tax matters for their financial year-end. Now is a time to ensure that everything is in order regarding directors' expenses and review loan account record-keeping procedures. This is particularly so as HMRC report that they commonly find errors in relation to directors' loan accounts when making routine reviews of company tax returns.

The statutory rules for computing taxable profits **exclude companies from deducting expenditure unless it is incurred 'wholly and exclusively' for the purposes of the trade**. As companies are separate legal entities that stand apart from their directors and shareholders they do not incur 'personal' expenses. However, many companies, particularly 'close' companies (broadly, one that is controlled by five or fewer shareholders), pay the personal expenses of their directors. Where payments, either made to or incurred on behalf of a director, do not form part of their remuneration package, these amounts may not be an allowable company expense and may not, therefore, be deductible for corporation tax purposes. In such circumstances, it may be appropriate for these items to be set against the director's loan account.

Accounting disclosure requirements for directors' remuneration include sums paid by way of expense allowance and estimated money value of other benefits received other than in cash. The money value is not the same as the taxable amount, although this is often used in practice. This means the onus is on the director to justify why amounts not disclosed in accounts should be accepted as part of the remuneration package rather than debited to his or her loan account.

Where the expenditure forms part of the remuneration package it will be an allowable expense of the company and the appropriate employment taxes should be paid. Where the expenditure does not form part of the remuneration package the relevant amount will normally be debited to the director's loan account.

Cash transactions between the company and directors may have tax consequences. A charge may arise where a director's loan account is overdrawn at the end of the accounting period and remains overdrawn nine months and one day after the end of that accounting period (known commonly as the 'section 455 charge').

Proper records should be maintained of all cash and non-cash transactions between a company and its directors. Poor record-keeping may result in non-business expenditure incurred by the directors being incorrectly recorded or misposted in the company's records and claimed in error as an allowable expense.

Build your marketing machine in 7 steps

Whatever the size of your business, now is the time to really market yourself. We are living in a very competitive environment, new products and services are constantly being developed and all businesses need to make sure they are up with, and preferably, ahead of the competition.

Many businesses put marketing barriers up: I don’t have time, customer service comes first, I have family commitments and that’s not what I do! If you have a clear focus that you want to grow your business then you need to make some time to action your plans. Here’s what the most successful businesses do:

1. Get focus - set targets for growth over the next 12, 24 and 36 months.
2. Appoint a full time or part time marketing person or create some time to do the marketing yourself. It’s not going to happen by itself!
3. Get a marketing plan to meet your growth objectives. Ask yourself:
    - What do we need to do to keep our existing customers coming back?
    - How do we sell them additional products and/or services?
    - How do we get them to buy more often from us?
    - How do we get them to refer us new customers?
    - What do we need to do to let potential customers know we exist and that we have products/services they may like?
    - How do we differentiate ourselves from similar businesses?
    - Have we got a database of existing and potential customers? If we have, sending letters, emails and offers becomes a lot easier.
4. Write down your plan - then decide how you are going to action it. How are you going to do it? What marketing materials do you need?

5. Gather your marketing materials together:
    - Develop a brochure of products / services information
    - Keep up to date information on your website
    - Consider letters, postcards and emails
6. Adopt a distribution plan. Decide when and how you will let existing and potential customers know you are here and what offers and products/services you have.
7. Manage Feedback - review how effective your marketing activities have been. Be flexible and be prepared to try out different ways of marketing.

If you want to grow your business, invest in your marketing activities. Create time or hire someone to make it happen!

Keeping your website up to date for Google searches

Google is still the world's most popular search engine. Google's search engine algorithm is continuously being updated so how do you keep your firm's website up to date so that you show up in online searches?

More than 2.3 million Google searches are conducted every single minute. The top 5 search results on Google get over 70% of the click-through traffic. There is no point in being on the second or third page of search results - people don't tend to look that far. Your firm needs to be in the top half of the first page in order to allow potential customers to find your business online.

Mobile search is also on the rise - 88% of smart-phone users are searching on Google. As such, you should make sure that your firm's website is optimized for smart-phone screens as well as computers and tablets.

Google offers a free service called Google Search Console. This service allows you to submit your website to Google for indexing.

You can also use the tool to identify any potential search related errors on your site, view the kinds of search queries that are driving traffic to your site, etc.

You can also link your firm's website to Google My Business. This can help your website to appear in relevant geographic search results. Google will then send a postcard to verify your business's physical address and your firm will show up if people are searching for a business like yours in the local area.

The speed at which your website loads also affects the way it is ranked by Google. Google ranks faster loading sites higher than slow websites. You can make your site load faster by minimising the size of image files and using fast hosting services.

Finally, ensure that you use relevant keywords in your page titles, meta descriptions, URLs and throughout your actual content. Don't use too many keywords as this can actually have a negative effect on your site's Google ranking.

If in doubt, consider hiring in an external consultant to help you – but please feel free to 'pick our brains' on this before you sign up!

The importance of good corporate governance

With recent, very public governance failures at businesses such as BHS, Carillion and other well-known brands, it is clear that business leaders need to do more in terms of living up to their responsibilities, following best practice, etc. – even in small businesses!

Good governance is a must for SME's as well as large listed companies. Corporate governance refers to a set of internal policies, rules, and procedures that a company follows on a regular basis in order to ensure that it operates in a fair, equitable, and appropriate manner for the benefit of the company, its management and its stakeholders. Those stakeholders include your staff, customers, investors, suppliers and the wider community.

Most business owners and managers are familiar with the regulatory and compliance requirements of being in business. However, that is just the beginning of good corporate governance. The next step is to make sure that your business creates and delivers its strategy. That strategy should be designed to maximise the opportunities and minimise risk for the benefit of the firm and its stakeholders. You then need to build that into your company and its culture.

Good governance is not about making the “right” decisions. Instead, it’s all about ensuring that there is a good decision-making process in place and making sure that the process is followed. Having a robust decision-making methodology in your firm can help you to change direction efficiently in order to drive the business forward when opportunities arise.

In large businesses, the management board will probably have a team that is charged with ensuring the firm adheres to the principles of good governance. However smaller business can put a simple governance structure in place. This could be achieved by having a trusted advisor (such as your accountant) or a non-executive director (NED) on the board.
Good governance helps you and your business to manage risk.

It’s easy to get distracted by growth opportunities, business development and so forth. Good corporate governance practices ensure the business stays on top of statutory reporting, annual returns, renewing insurance policies and licenses, etc. Your trusted advisor should hold you accountable and focused on meeting your legal and statutory requirements whilst also helping you see the bigger picture.

Finally, implementing good corporate governance practices encourages the management team to review and update the firm’s strategy on a regular basis in order to maintain and/or improve the performance of the company. From time to time, this may include bringing in external experts to assist with strategic decision-making.

High expectations can have a negative impact on your team

Good managers may have high expectations of their team members, but how high should your expectations be in order to maintain a motivated team?

Setting goals which push staff to achieve their best can lead to very positive results. High performing people like to be challenged and welcome the opportunity to take on interesting projects.

However, setting unrealistic goals can have a negative impact on employees and the wider business. Employees get a buzz from hitting their targets and achieving their objectives. If their goals are unrealistic, your team members can feel like they aren’t succeeding in their roles which can impact their self-esteem, motivation and productivity. More widely, if your team regularly misses targets, this could lead to questions being raised about you, your management skills and your ability to help your staff to achieve their goals.

Setting unrealistic expectations can even affect the quality of your team’s outputs. For example, team members may be tempted to try to rush work, cut corners and not take proper care. This can lead to mistakes and poor quality outcomes. If you set unrealistic expectations around deadlines, your staff may need to spend longer on projects which could result in cost overruns.

In order to avoid setting unrealistic expectations, managers need to think before setting objectives. Wanting something to be completed quickly, doesn’t necessarily mean it can be completed in that timeframe.

Take a step back and consider the amount of work required and what resources you have available, before setting a deadline. You may also need to manage the expectations of your own manager or CEO.

As a manager, it is important to support your team as much as possible. Instead of setting expectations and putting increased pressure on staff to perform, try mentoring them in order to help them achieve the best possible outcome. Working with your team in this way is more satisfying and productive.

Voluntary disclosures to HMRC

HMRC have updated their online guidance on disclosing unpaid tax to include information on authorising an agent to deal with a disclosure made through the Digital Disclosure Service (DDS).

The DDS gives individuals and companies a chance to bring their affairs up to date in a simple, straightforward way. **Anyone who owes tax on your income you must tell us about any unpaid tax now.** Anyone who owes tax on income or gains must tell HMRC about any unpaid tax. They will then have 90 days to calculate and pay what is owed.

- How to make a voluntary disclosure to HMRC explains how individuals and companies not eligible for an HMRC

campaign can make a voluntary disclosure to HMRC.
- Let Property Campaign: your guide to making a disclosure explains who can use the Let Property Campaign and how to make a disclosure to HMRC for unpaid tax. The online guidance has been updated to include details of a new form (form COMP1a), which can be used by clients to authorise agents to deal directly with HMRC about a disclosure made using the DDS. Agents should use the DDS to notify HMRC of a client's disclosure.

March questions and answers

Q. My wife and I own various assets – some are held in individual names and others are held jointly. We are wondering whether we should 'equalise' the value of our assets so as reduce potential liability to capital gains tax at a future date.

A. As a general rule, so-called 'equalisation of estates' is often desirable for both capital gains and inheritance tax purposes. Broadly, this means that ideally, each spouse/civil partner should own assets:

- amounting to at least the value of the inheritance tax (IHT) nil rate band (currently £325,000);
- which, on sale, enables full use of the capital gains tax (CGT) annual exempt amount (£12,000 for 2019/20); and
- generating income sufficient to mitigate any exposure to higher rate income tax.

Although inter-spouse/civil partner transfers are not technically exempt from CGT the mechanics of computation are such that no CGT charge arises on such transfers. This treatment requires the spouses/civil partners to be married and living together. The spouse or civil partner receiving the asset may have to pay tax on any gain if they later dispose of the asset. Their gain or loss may be calculated from the date the asset was acquired by the original spouse/civil partner.

Transfers between spouses must be 'real' transfers and effected as if to a third party. This means all relevant documentation must be correctly completed.

Q. I run my own business, which is registered for VAT. If I purchase a new car for business use, can I reclaim the VAT I pay on it?

A. If you only use the car for business purposes, you may be able to reclaim all the VAT paid on the purchase price. However, the car must not be available for private use, and you must be able to show HMRC that this is the case.

'Private use' includes travelling between home and work, unless it's a temporary place of work.

You may also be able to claim all the VAT on a new car if it's mainly used:

- as a taxi
- for driving instruction
- for self-drive hire

If you lease a car, you can usually claim 50% of the VAT. You may be able to reclaim all the VAT if the car is used only for business and is not available for private use, or is mainly used as a taxi or for driving instruction.

You can usually reclaim the VAT for buying a commercial vehicle (like a van, lorry or tractor) if you only use it for business.

Q. I bought a property several years ago to rent out. Over the last five years, its value has risen from £120,000 to £220,000. I understand that if I sell it now, I would be liable to pay capital gains tax on a gain of £100,000. If I sell this property and re-invest the proceeds in another buy-to-let property would this mean I could delay paying the tax now?

A. Unfortunately not. Your plan to buy another house and thereby reduce the CGT payable on the first house is not allowed. 'Rollover' or 'holdover' relief from CGT is not available for investment properties, except for furnished holiday lettings, or compulsory purchase.

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' or the easy to read 'How To Pay Less Tax' guide. Please contact us to request your copies now.

About Us

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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 afield.

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