HANLEY & CO
CHARTERED ACCOUNTANTS
AND BUSINESS ADVISORS
TAX TIPS & NEWS
www.hanleyandco.co.uk
help@hanleyandco.co.uk

Welcome...

This is our monthly newsletter designed to bring you tax and business tips and news to keep you one step ahead.

We are committed to ensuring none of our clients pay a penny more in tax than is necessary and they receive useful tax and business advice and support throughout the year.

Please contact us for advice in your own specific circumstances. **We are here to help!**

Don't be late paying your personal tax bill

Individual's 2017/18 income tax, CGT, class 2 and 4 NIC liabilities should have been paid by 31 January 2019.

Note that if the balance is still **unpaid at the end of February 2019 a 5% surcharge penalty is added** in addition to the normal interest charge unless a time to pay arrangement has been agreed with HMRC.

Welcome CGT Entrepeneur relief change for shareholders

In the December 2018 newsletter we alerted you to important changes to CGT entrepreneurs' relief included in the latest Finance Bill that could have the effect of denying the relief to certain employee shareholders. As the result of lobbying by the professional bodies the government have made a late change in the Finance Bill to the definition of "personal company" so that fewer shareholders will be denied the relief when they dispose of their shares.

The normal test is that the shareholder is required to be entitled to at least 5% of the company's ordinary share capital, voting rights, profits available for distribution, and assets available on the winding up of the company.

The amendment provides an alternative test which would allow relief where the individual is entitled to at least 5% of the sale proceeds in the event of a disposal of the whole of the ordinary share capital of the company, even if the 5% test in relation to distributable profits and assets on a winding up was not satisfied.

This remains a complex area and we would suggest that you contact us to review your company's share structure to check whether particular shareholders would be entitled to relief for their shares.

The Section 455 tax charge on directors loan accounts

For accounting purposes, cash transactions between a director and a personal or family company are recorded through the director's loan account. At the end of an accounting period, if the director owes the company money (i.e. the account is considered overdrawn), and the company is close (broadly, one that is controlled by five or fewer shareholders (participators), there will be tax consequences to consider.

A tax charge will arise under the Corporation Tax Act 2009, s 455 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. **The tax charge is the liability of the company and is calculated as 32.5% of the amount of the loan.** The rate of the charge is equivalent to the higher dividend rate.

Example

Nicola is the director of her personal company N Ltd. The company's financial year end is 31 March.

On 31 March 2018, Nicola's loan account is overdrawn by £20,000 and it remains overdrawn by this amount on 1 January 2019 (the date on which corporation tax for the period is due).

The section 455 charge, payable by the company is £6,500 (£20,000 @ 32.5%).

Avoiding the charge

Even if the loan account was overdrawn at the end of the accounting period, the section 455 charge can be avoided if the loan is cleared by the corporation tax due date of nine months and one day after the end of the period. This can be done in various ways:

- the director can pay funds into the company to clear the loan;
- the company can declare a dividend to clear the loan balance;
- the director's salary can be credited to the account to clear the loan balance; or
- the company can pay a bonus to clear the loan balance.

It should be noted however, that with the exception of the director introducing funds into the company, the other options will trigger their own tax bills.

Two further points are also worth highlighting here:

- Clearing the loan may not always be beneficial and paying the s 455 charge may be preferable. For example, if the tax on a dividend or bonus credited to clear the loan is more than the section 455 charge.
- Once the loan is cleared, the s 455 tax is repayable. This happens nine months and one day after the end of the tax year in which the loan is cleared. It should also be noted that anti-avoidance rules apply to prevent the director clearing a loan shortly before the section 455 trigger date, only to re-borrow the funds shortly thereafter.

Juicy VAT case

The First Tier Tribunal (FTT) were recently called upon to examine whether fruit and vegetable juices sold as meal replacements were beverages and therefore standard-rated for VAT.

The case (The Core (Swindon) Ltd [2019] TC 06874) concerned a juice bar and health café which supplied juice cleanse programmes (JCPs) consisting of fresh drinkable products made from juicing raw fruits and vegetables. Customers would participate in a programme over multiple days, for example a 5-day programme might be taken where meals were replaced by JCP juices and smoothies for five days with four servings per day. The marketing material showed that the JCPs were marketed as meal replacement programmes and not merely as healthy drinks.

In HMRC's opinion, standard-rating applied for VAT purposes, but The Core argued that what was important was what the consumer actually sees, which was more than just some drinks. They were marketed and sold totally differently. In addition, customers were provided with advice and encouragement, as well as the menu plan.

The FTT was called upon to decide whether the JCP product was a beverage within excepted item 4 of VATA 1994, Sch 8, Grp 1, and in doing so, it needed to make a multi-factorial assessment looking at:

- how the product was marketed;
- why it was consumed by the customer; and
- what was the use to which it was put?

Overall, the key difference in this case compared to other cases cited at the Tribunal was that the product was specifically sold by The Core, and bought by its customers, as a meal replacement, and not as a beverage. Moreover, the JCPs were not marketed as beverages, but as meal replacements in liquid form. Although the JCPs appeared to be a kind of 'smoothie', they had a different function and so were regarded as a food. The Tribunal was therefore able to allow the appeal and zero-rating applied to the JCPs. In summary, this case was particularly interesting as it demonstrated how the FTT needed to look at many layers of information before being able to make their determination of the facts.

New Year's resolutions in the Office

Many of us will have made a new year's resolution for 2019. Perhaps we want to learn a new language, get in shape or spend more time with our family. The start of a new year is also a good time to decide what you're not going to do in the office this year.

Stop trying to get your inbox to zero
The entire concept of getting your inbox to zero unread messages assumes that email is your top priority and therefore you should strive to do it perfectly. Email is only a tool. Your top priority should be creating and executing your business objectives, looking after your customers and growing profitability.

When it comes to managing your email, you should scan through your inbox a few times a day, pick out the priority emails and deal with those as soon as you have time to do so. It can be helpful to schedule "email time" in the morning and afternoon in order to keep your day free to deal with your meetings and other priorities.

Stop fighting your internal clock
Some people are early birds and others are night owls. Rather than fight with your body, work with it. If you are more productive in the morning, get up early and start work. Equally, if you are a night owl, then start late and finish late. You don't need to be seen to stay late and work all night in the office. If you want to be really successful, focus on getting things done rather than being seen to work long hours.

Stop managing and start leading
Managers focus on doing things right. That has its place in any business. However, if you want to be a business leader, then stop managing and start leading. Leaders focus on doing the right things, and then involve the managers in order to ensure those things are done properly.

Stop snacking on unhealthy things in the office
Snacking on sugary treats will give you sugar highs and lows throughout the day and won't do much for your health. Replace cakes and sugary biscuits with fruit, nuts and healthy snacks like yoghurt. If you can reduce your sugar intake you can kiss goodbye to the "3 o'clock slump." Remember - a healthy body goes hand in hand with a healthy mind. Healthy minds tend to be the most successful and productive minds.

We all work to get paid but is money alone enough to motivate your employees?

Regardless of the type of business you run, you need to pay your employees fairly and in line with your competitors. If you don't pay your people in line with the market, it can act as a de-motivator. However, once your pay scales are in line with industry norms, money alone isn't really enough to keep your employees performing at a high level.

Paying in line with the market tends to achieve a rather neutral position, where there is no dissatisfaction among your employees but this does not translate into them being more motivated.

Various studies have shown that employees place a high value on freedom. They value flexible working, the opportunity to work from home when they want to and they want to work for businesses that invest in the technology that allows them to do this.

Business is not just 9 to 5 anymore - it's 24/7. So why should your employees be tied to a 9 to 5 work day? Businesses can benefit from this flexibility - projects led by agile workers tend to be completed quicker. Progress doesn't just happen between 9am and 5pm. When the pressure is on, your flexible employees will stay late and get the job done. Conversely when things are quiet, they want the flexibility to go to the gym or do the school run. Modern professionals may well choose to work for an employer that has embraced agile working over and above a business that pays a little bit higher than market rate but doesn't offer flexible working.

Assuming your firms pay is in line with the market, your employees will be focused on job satisfaction. Again, various research studies have shown that high performing employees are motivated by purpose. They want to understand how their work contributes to the overall success of the business.

They also want to get involved in projects and take responsibility for delivering their objectives. If you give people the opportunity to work on meaningful projects in a way that makes them feel they are contributing to the success of the firm, they will be more motivated. As far as recruitment is concerned, we are in the midst of a war for talent. The best people will stay with the businesses that offer them job satisfaction.

So, does money really motivate employees? Yes and no. There is an expectation that they should be paid in line with the market. Beyond that, they will focus on job satisfaction, flexibility, etc.

Managing in uncertain times

Due to Brexit, 2019 looks set to be a year filled with uncertainty for businesses.

The future is always unknown but this year managers will need to navigate some particularly choppy waters due to market uncertainty and global political turmoil.

Focus on what you can control
As a manager you can always control your response, attitude, behaviour, actions and words. You can choose to be proactive and inquisitive rather than paralysed. In times of uncertainty, the best managers step up and embrace their authority. When times are uncertain, your team wants you to lead the way. Bring your team with you on the journey, ask them for their opinion, include them in your planning conversations and challenge them to come up with new solutions.

Cash is king
In uncertain times, the old adage that “cash is king” carries even more weight. Cash is the lifeblood of your business and poor cash flow management kills businesses during tough economic times. Market volatility also creates opportunities. If you have cash or credit available to take advantage of these opportunities when they present themselves, you may be able to move quickly and move your business forward. As such, good cash flow management can allow you to cash in.

Embrace change and adapt
As your particular market changes, there will be opportunities for you to adapt. For example, if your customers have less budget to spend on buying products and services in your sector, it might be an opportunity for you to introduce a lower priced “value offering.” You could even go one step further and change your pricing model. For example, you could move clients to monthly retainers rather than charging a once-off annual fee.

Diversify
If you depend on one big client to keep your business going, you should consider how to diversify your client base. Sometimes even giant businesses fail during tough times. If your biggest client goes out of business, you don’t want to be collateral damage. Just like in investing, the key is to have a diversified portfolio. Now could be a good time to look at trying to win some new clients in order to make your business more resilient.

February questions and answers

Q. I recently sold my main residence and down-sized to a smaller property. Unfortunately, because of current economic conditions, the sale price of the house was £30,000 less than I originally paid for it many years ago. Can I offset this loss against income from my business and reduce my income tax liability for this year?

A. Unfortunately the tax law does not permit you to off-set losses in this way. I am assuming that your business does not trade in properties. Losses on the sale of a principal private residence are generally not allowable losses for tax purposes. If the property was an investment asset, the loss on the sale may be treated as a 'capital loss', which could be offset against other capital gains you make, but it cannot be offset against other income. For further information on this, see the HMRC Capital Gains Manual at paragraph CG65080.

Q. I have been trading for several years. Although I am not currently registered for VAT, I think my income is getting close to the VAT registration threshold. Are there any items I can ignore for working out my 'taxable turnover' for VAT registration purposes?

A. When the 'taxable turnover' of a business reaches the VAT registration threshold, currently £85,000 per annum, it must register for VAT. As you state, any income you receive that is not counted as 'taxable turnover' is excluded from the £85,000 turnover figure.

There are several items that can be ignored when calculating 'taxable turnover' for VAT registration purposes. This commonly includes insurance, postage stamps or services; and health services provided by doctors or dentists.

- Some goods and services are outside the VAT tax system so VAT is neither charged nor reclaimed on them. Such items include: goods or services you buy and use outside of the EU;
- statutory fees - like the London congestion charge;
- goods you sell as part of a hobby - like stamps from a collection;
- donations to a charity - if given without receiving anything in return.

Supplies of services to business customers in another EU member state or any customer outside the EU are treated as outside the scope of UK VAT and do not count towards turnover for VAT registration purposes.

Other non-business income that may be excluded includes disbursements incurred on behalf of a client, grants, or any income from employment.

It is also worth noting that 'one-off' sales of capital assets can be ignored. So, for example, if you sell a van and the income received puts the business turnover over the registration limit, the sales proceeds can be ignored.

Q. My employer has offered to give me an interest-free loan to purchase an annual rail fare ticket costing £3,500. Will I have to pay tax on the loan?

A. Strictly, the taxable benefit on cheap or interest-free loans is the difference between any interest paid and the interest payable at the 'official rate' (currently 2.50%). However, there is no charge where the total of all beneficial loans made to an employee do not exceed £10,000 at any time in the tax year. If this is the only loan you have from your employer, you will not need to pay tax on the benefit. However, it is worth noting that tax is charged on the amount written off of any loans, whether or not the recipient of the loan is still employed.

Need Help?

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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

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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 a-field.

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

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