MORE THAN WORDS

Accountants (general articles)

Note to readers

We first started writing for accountants in 2016. Some of the articles contained herein may relate to previous years in which tax rates and rules are different from today.

Rental income splits – what you need to know (general accounting, 450 words)

If you have rental property you let out, you need to know about rental income splits and how HMRC views them.

The law has been settled on rental income splits for a little while now for married couples and civil partners who live together.

How income is split

Assuming the property is owned on an equal basis, income from the property must be split and taxed in equal shares.

If you and your spouse or civil partner own the property but one has a bigger share than the other, any income must be apportioned based on the level of shareholder and taxed on that basis. You need to provide proof to HMRC that you are entitled to receive unequal income as HMRC's assumption is that all arrangements would beget a 50/50 split. If you need to prove that, download and fill in Form 17.

For example, let's say that Mr and Mrs Green own a property. Mrs Green has a 75% share and Mr Green a 25% share. Their rental income is £10,000 a year.

Without filling in form 17, both Mr and Mrs Green would be taxed on £5,000.

When they do download, complete, and send off Form 17 and HMRC accept their evidence, Mrs Green will now pay tax on £7,500 and Mr Green £2,500.

If only one of you is the sole legal owner, what happens?

HMRC do allow you to declare rental income as belonging to the other partner. If you do this, you'll benefit by making use of their personal allowance and marginal tax rates.

To do this, you need to use Form 17, mentioned above.

Both of you will need to sign the declaration of trust and in it state that even though the legal title is in the name of one partner, they hold the net equity in the property for the benefit of their spouse or civil partner howsoever you decide to split the income.

Beware stamp duty land tax

When completing Form 17, be careful to make sure that only the net equity in the property is transferred to your spouse or civil partner. If you try to transfer the mortgage interests, the value of the transfer may trigger stamp duty and you may inadvertently breach the terms of your mortgage agreement.

Are there inheritance tax or capital gains tax implications?

Provided that you and your spouse or civil partner are together at the time of a net equity transfer, this will be exempt for the purposes of inheritance tax. It will also be treated as a no gain/no loss transaction so no capital gains tax liability should arise.

Here to help

If you have property and you want advice on how to deal with all aspects of rental income and rental income splits, please do give us a call on (number) or email us at (address).

If you take deposits, what do you do about VAT? (general accounting, 900 words)

VAT on deposits is a subject we get asked about a lot here at (accountant name).

Different rules apply to different types of deposit so, in this article, we look at the current rules surrounding taking money from a customer as a deposit and its subsequent VAT treatment.

The first thing to consider when thinking about VAT on deposit is the "tax point rules". A tax point is the time when you need to recover your input VAT and your output VAT is due.

Holding deposits and advanced payments

There are two tax points to consider here – when you take the deposit and when you take the rest of the payment.

When you take the deposit, the tax points occur on the date that you either issue a VAT invoice for it or when you receive the money. You include the VAT due on the advance payment in that VAT quarter.

For the remainder of the money, the tax points occur on the date you issue the VAT invoice for the balance or you receive the money. Again, you include this on the VAT return for the quarter in which the tax point occurred.

Returnable deposits

If you ask customers for money which you then return to them when you get the goods back (for example, if you hire out plant or machinery), you don't have to account for VAT if you refund the customer in full when they've returned your items or if you keep the deposit as compensation for any loss or damage your customer caused.

Forfeit deposits

If you hold a deposit for a customer against your products or services, you'll need to declare VAT on the deposit once you've got the deposit payment from them or the date on which you issued the VAT invoice, whichever comes first.

However, if it is written into your agreement that you can keep the deposit if the customer changes their mind and this is indeed what happens, there is no VAT due. If you've already accounted for that VAT on a return, all you need to do to reclaim the VAT is to adjust your next VAT return.

For companies using the cash accounting VAT system (that's where you pay VAT on the receipt of cash and not the production of an invoice), you'll account for that VAT when you've received the money from your customer unless the deposit is returnable.

Continuous supplies

If you make continuous supplies to a customer, you create a tax point every time you either issue a VAT invoice or receive a payment, whichever comes first.

You can issue a VAT invoice at the beginning of any period for up to a year for all the payment you're expecting in that period, setting out on your invoice the amount of payment due excluding VAT, the date you're due to receive payment, the rate of VAT applicable, and the amount of VAT payable.

If you do this, you don't need to account for VAT on any payment until either the payment is due or the date on which you're paid, whichever comes first.

Credit sales and conditional sales

There are two types of instalment payment – credit and conditional.

For a **credit sale**, you're paid in instalments but what you've sold the customer now belongs to them – it is their property.

For a **conditional sale**, the customer makes instalment payments but you're still the owner of what you've sold to them. Ownership only transfers to your customers once it has been fully paid for.

Tax points for credit and conditional sales are created when you actually make supply to the customer. You should account for VAT on the full value of the goods on this date.

You can replace this tax point by either issuing a VAT invoice or receiving payment before you supply the customer or issue a VAT invoice up to 14 days after the basic tax point.

For companies using the cash accounting VAT scheme, goods that you sell under a credit or conditional sale agreement are excluded from the scheme.

If your company is financing the sale, you show the credit charge separately on your invoice and this credit charge will be exempt from VAT (as will administration, documentation, or acceptance fees). Any other related fees are exempt from VAT if you make charge of £10 or less for them.

You declare VAT on the full value of the goods you supply on the VAT return for the quarter in which you made the supply. If the finance you're making available to your client is interest-free, you declare VAT on the full selling price when you make the supply.

If you sell via a hire purchase agreement where the finance company becomes the owner of the goods, you account for the VAT on the actual value of the goods when you make supply. If you receive a commission from the finance company, this may also be subject to VAT.

If you sell via a loan agreement where the finance company does not become the owner of the goods, VAT is due on the selling price to your customer, even if you receive a lower amount from your finance company.

Want to know more?

It's really important that you account for VAT at the correct tax points. If you want to talk to us about this subject or any others to do with your business, please call (number) or email (address).

Paying National Insurance voluntarily? Why? (general accounting, 650 words)

Paying National Insurance voluntarily may sound strange to many of our readers. Hearing your accountant even mention paying national insurance voluntarily may cause you to jar up a little. And we understand why.

It's all too easy for many of us to forget that how the government and HMRC think of income tax and national insurance payments. They think of them completely differently in the sense that national insurance is still seen by the state as your direct contributions towards your state retirement pension and to other benefits.

By paying in a little now, you could increase the amount of money you receive when you're much later in life. How does the system work?

Paying National Insurance voluntarily – gaps in your record

Many millions of Brits have gaps in their National Insurance records. It could be down to very low earnings for a period of time, time you spent living abroad, time you were self-employment and made little or no profit, or time you've been unemployed where you've not been claiming benefits.

To find out whether there are gaps in your record, ask the HMRC for your National Insurance history.

Paying National Insurance voluntarily – what type of voluntary payments can you make?

Class 3 contributions only add towards your state pension.

Class 2 contributions (paid by the self-employed) count towards your pension and to bereavement payments.

Class 1 also contributes to your state pension but also counts toward bereavement benefits, Jobseeker's Allowance, Employment and Support Allowance, and Maternity Allowance.

Class 4 contributions, those paid by the self-employed earning a profit of more than £8,164 a year do not count towards your pension or any other benefits, in most cases.

When you've request your record from HRMC (see the link above), it will tell you if you can pay voluntary contributions to fill any gaps and the amount of money it will cost you.

Paying National Insurance voluntarily – who's eligible?

You can normally only pay for gaps in your NI records for the past 6 years.

If you're self-employed with profits under £6,025, you can contribute towards Classes 2 and 3.

If you're both employed and self-employed with low earnings and small profits, you'll need to call HMRC on 0300 200 3500 to check if there is a gap in your record and what you'll need to pay.

If you've been self-employed as an examiner, minister of religion, or in an investment, land, or property business, you can pay in towards Classes 2 and 3.

If you've been living and working abroad, you can top up your Class 2 but only if you worked in the UK just before you left and you've previously been a resident in the UK for 3 years in a row or paid 3 years' worth of NI.

If you've been living abroad but not working, you can add money to Class 3 Nis but only if you've lived in the UK continuously for 3 years of paid 3 years' worth of NI contributions.

For those who have been unemployed where they have not claimed benefits, it's Class 3, as it is for married women or widows who stopped paying reduced NI rates.

Paying National Insurance voluntarily – how much will it cost?

For the 2017/2018 tax year, Class 2 rates are £2.85 a week and Class 3 rates are £14.25 [er week.

You'll pay these rates but if you're paying Class 2 for the previous tax year or Class 3 for the previous 2 tax years, you pay those years' rates.

Paying National Insurance voluntarily – Class 2 NI abolition

Class 2 NI is being abolished from 6th April 2018.

From that point on, those paying voluntary Class 2 contributions will need to pay Class 3 contributions to secure their pension.

Paying National Insurance voluntarily – how much will it cost?

Want to know more? This is something a lot of self-employed people face, particularly in the leaner years which every business goes through.

To speak with (name), call (number) or email (address).

R&D tax credits (general accounting, 900 words)

Last November, Prime Minister Theresa May promised an extra £2bn a year for scientific research with the specific intention of boosting Britain's technology industries.

That's all good news but the evidence seems to be that the message is not filtering down to Britain's businesses. According to Rebecca Burn-Callander in the Daily Telegraph, "Did you know that 40pc of all the active companies in the UK generate some form of innovation, be it a new product, service, or business process? Yet most business owners have no idea that they qualify for money back from the Government in the form of an R&D tax credit."

Here at (client name), a lot of our clients are cutting-edge businesses bringing new ideas and new ways of doing things to the market.

In this article, we look at R&D tax credits and whether your firm is eligible to benefit from the scheme.

R&D tax credits – what is classed as R&D?

With research and development, there's an element of risk. You're creating a new product, a new process, or a new service but you need to overcome technological or scientific "uncertainties" before you know whether it will work or not.

The same test applies if you're changing something that works in an existing product, process, or service but you do not know how to make it functional in practice without research and development.

You can claim R&D tax credits even if the R&D you did was not successful.

R&D tax credits are available on your own projects as well as for work that is given to you by another company.

R&D tax credits – what costs can I claim for?

You can claim back:

• employee costs for those engaged directly in R&D (directly employed staff with a contract of employment)
• staff providers (where the staff member is engaged directly in R&D)
• materials (consumable or transformable materials used in the R&D)
• payments to clinical trial volunteers
• electricity, gas, water, and fuel used directly in carrying out R&D
• software used in R&D
• subcontracted expenditure related to R&D (up to 65% of what you spend on these activities where a subcontractor is not connected to your company nor are you jointly responsible for a connected party's treatment)
• capital expenditure (under the R&D allowance scheme)

You can't claim for

• consultants, staff, directors, or agencies workers whose employment contracts are with other companies who are not subcontractors and who are not supplied via a staff provider.
• recruitment consultant fees

• telecommunications and data costs

R&D tax credits – can my SME get these grants?

Companies with fewer than 500 staff and either less than €100m turnover or €86m in gross assets can qualify for SME relief.

The average R&D tax credit claim in the UK stands at £54,214, according to Taxation magazine.

R&D tax credits – how do the grants work?

You claim tax relief of up to 230% on your allowable R&D costs. So, for every £100,000 of qualifying costs, your company could be in line to reduce its corporation tax by an extra £130,000 on top of the £100,000 spent.

Here are three examples, one for a profit-making company...

	Amount
R & D Expenditure	£100,000
R & D Relief	£100,000 x 130% = £130,000
Normal taxable profit	£130,000
Taxable profit minus R&D relief	£130,000 - £130,000 = £0
Revised taxable profit	£0

...one for a loss-making firm carrying that loss forward or backward...

	Amount
R & D Expenditure	£100,000
R & D Enhancement	£100,000 x 130% = £130,000
Normal taxable loss	£100,000
Trading loss les enhanced by R&D tax relief	£100,000 + £130,000 = £230,000
Loss available to carry forward or back for CT	£230,000

...and one for a company wanting to receive a cash tax credit

	Amount
R & D Expenditure	£100,000
R & D Enhancement	£100,000 x 130% = £130,000
Normal taxable profit	£50,000
Trading loss after R&D tax relief	£50,000 - £130,000 = -£80,000

R&D expenditure qualifying for conversion to credits	£80,000
Potential tax credit	£80,000 x 14.5% = £11,600
Payable tax credit	£11,600
Losses to carry forward or back	Nil

R&D tax credits – what about HMRC?

To claim for R&D tax credits, you'll have to provide details of the money you spent on innovation to HMRC.

The type of information they will normally look for is a description of your R&D projects, records of all the costs associated with it, and the methodology on the calculation you use to arrive at the level of tax credit you're asking for.

Your claim is then entered in the R&D tax credit calculation on your CT600 corporation tax return document.

R&D tax credits – when do I receive the money?

If your business is making money, your overall corporation tax bill will be reduced. If you've already paid the tax, you will receive a repayment.

If you want to receive a cash payment because you made a loss in that financial year, the credit is paid directly into your business bank account within four to six weeks of HMRC receiving your CT600.

If you want to carry a loss forward or backward, you will receive no payment however this loss will be reflected on future or revised CT600 submissions.

R&D tax credits – how can (client name) help?

R&D tax credits are complicated and your application for them will be scrutinised by HMRC.

Other than proving that what you do qualifies, the biggest thing to get right is that you have allocated all your expenditure correctly and can produce a clear and understandable financial trail.

Ask the (client name) for help on (client telephone number) or email (email address).

Making Tax Digital – the countdown has begun (general accounting, 1,000 words)

The roll-out of Making Tax Digital is, without doubt, the biggest change to the way tax liabilities are reported and paid for since the introduction of Self Assessment in the 1990s. This brand new system, or rather its first incarnation, will be with us on April 2019.

Here at Accounting Gem, we've been preparing for its introduction over the course of a number of months now so that, when it does launch, we're ready for it.

But what is Making Tax Digital and how will it change the way that accountants and taxpayers interact with HMRC in the years to come?

What is Making Tax Digital?

Making Tax Digital will eventually become the primary method by which companies and the self-employed report their trading income and expenditure to HMRC. To make this possible, every person and business will have, at some point, their own Making Tax Digital account.

The financial information retained on that Making Tax Digital account will be continuously updated using compatible, HRMC-approved software. Account holders will be able to log on at any time to see how much tax they owe as it accrues and be notified as to when payment becomes due.

HMRC believe that the "tax gap" – the difference between the amount of tax collected and the amount of tax anticipated for collection – is partly caused by inefficient and erroneous completion of tax returns. They believe that Making Tax Digital will reduce the chances of mistakes and omissions (whether accidental or deliberate) meaning that they will raise increased tax revenue from the same user base.

That's the theory but Making Tax Digital has had a difficult birth. After years of changes and the occasional volte face, the system is going live in April 2019 and the first tax it will cover the reporting and collection of is VAT.

Any VAT-registered business with a turnover in excess of £85,000 will have to use the system. The Government Gateway for VAT will no longer work and paper files will not be acceptable. Most cloud bookkeeping systems will provide users with the ability to correctly use Making Tax Digital but others using bespoke software will need to invest in bridging software to comply with the new rules.

Under Making Tax Digital, you will have to keep a lot more information on the VAT you both pay and charge others including the date on an invoice, the invoice value, the rate of VAT applied, and much more. If you're on the flat rate VAT scheme, you won't need to keep a digital record of your purchases unless you're actually claiming the VAT back on that purchase.

Are businesses actually ready?

There has been very recent political concerns regarding the introduction of Making Tax Digital.

As recently as 26th November, a parliamentary select committee urged HMRC to push back the launch date by one year. As reported in Civil Service World, politicians believe that HMRC has "inadequately considered the needs and concerns of smaller businesses in managing the rollout of the programme...The committee recommends that the next stage of Making Tax Digital is not implemented until 2022 at the earliest, to allow time to learn and act on lessons from Making Tax Digital for VAT."

Indeed, the committee referred HMRC back to their March 2018 report in which they stated that HMRC was "alone in its confidence that all one million businesses will be ready for Making Tax Digital for VAT in April 2019".

Not escaping the notice of parliamentarians was the closeness of the proposed date of Brexit and the introduction of Making Tax Digital.

As reported in The Register, committee chairman Lord Forsyth believed that preparations by many business for Brexit was going to mean that fewer businesses would be ready for the Making Tax Digital launch.

The committee also expressed concern about the cost of compliance with one practitioner estimating bills of between £100 and £500 for cloud users, £800-£1,600 for desktop users, and £1,300 to £2,600 for paper record users. The committee commented that "the software industry is, unsurprisingly, responding to the commercial opportunity of Making Tax Digital for VAT. We have seen no evidence that any free software products will be offered."

Moore Stephens, the accounting network, recently published statistics showing that 37% of UK businesses are "unfamiliar" with Making Tax Digital. Nearly two-thirds weren't prepared for the deadline and nearly half had "no plans in place".

April 2019 for some, October 2019 for others

Some businesses will not be required to be ready for April 2019, specifically:

- Trusts
- 'Not for profit" organisations that are not set up as a company
- VAT divisions
- VAT groups
- Public sector entities required to provide additional information in their VAT returns (such as NHS Trusts and government departments)
- Local authorities
- Public corporations
- Traders based overseas
- Those that make payments on account
- Annual accounting scheme users

However, their stay of execution is only an additional six months.

What's next for Making Tax Digital?

Making Tax Digital, in its short life, has been a movable feast so far so please be aware that the following might change and change quite dramatically.

Making Tax Digital for income tax incurred by landlords and the self-employed who receive income from their properties, partnerships, or trusts is expected in April 2020. Corporation tax may also join the scheme at the same time.

Other than that, despite the grand plans for Making Tax Digital, there isn't that much visibility just at the moment on anything else.

Preparing for Making Tax Digital with (client name)

We're the people with the experience and the track record to fix any accounting issue you have. We represent over 500 different limited companies, sole traders, and partnerships here in Ipswich, Suffolk, and Essex.

Making Tax Digital is coming and we're here to help. Speak with one of our team on (telephone) or email us by clicking here.

Pre-year-end tax planning for 2018/19 (general accounting, 850 words)

Failing to plan is planning to fail… Or to a lesser degree, failing to do your tax planning before the end of the tax year may result in you paying more than you owe. Tax planning is, we admit, not the most exciting thing in the world until you actually realise how much it saves you at the end of the year. You work hard for your money so it's far better to keep as much of it for yourself as you can.

Here is The Financial Management Centre's guide on how to prepare both yourself and your business during the year in order to save at the end of the year.

ISAs and Junior ISAs

In the financial year 2015/16, government figures show that 12.7 million adults were using an ISA. One of the reasons that ISAs continue to be popular is that the gains made by them are not taxed and neither is withdrawing any money from the accounts you hold.

There is a limit for how much you can put into an ISA and that limit is £20,000 for both Stocks and Shares ISAs and Cash ISAs. The limit for Junior ISAs has been raised to £4,260. These allowances are mot transferred across tax years so if you don't use it, you lose it.

A couple of years ago, in April 2017, the government launched a new kind of ISA called a Lifetime ISA. This is a savings account that can only be opened by people aged 18-39. You can deposit up to £4,000 annually into these accounts. The downside to the Lifetime ISA is that you cannot withdraw any funds until you either reach 60 years old or until the time when you're buying your first home.

The last kind of ISA that we will cover is a Junior ISA. The chances are that you are over the age of 18. But this doesn't mean that you can't make use of a junior ISA. If you have a child who is under 18, you can give them tax free gifts of up to £4,260 a year.

Once your child reaches 18 years old, this ISA can mature into any of the other ISA variants or your boy or girl can withdraw the money tax-free.

Pension contributions

Pensions are another great way to put money away for the long term. You can make tax-free contributions into your pension up to £40,000 a year (for most taxpayers).

For those earning over £150,000, you lose £1 of allowance for every £2 that you earn above the £150,000 limit. If you're earning £210,000 or more, this tapering system ends and your personal allowance does not drop under £10,000.

£5,000 savings starting rate

If the income from your business or pension is below the 2018/29 personal allowance (£11,850) but you earn income through the interest on your savings, you could qualify for the savings allowance.

Interest of up to £5,000 can be paid to you tax-free on top of your personal savings allowance - this means you could earn as much as £16,850 before paying tax on interest. Please bear in mind that, for every £1 of income above the personal allowance you earn, your £5,000 tax-free interest starting rate threshold also reduces by £1.

Tax-deductible expenses

If you are self-employed, you can deduct certain expenses from your company's gross profit in order to reduce your overall corporation tax bill.

Let's start with your business' premises. You can deduct the costs of your:

- Heating,
- Electricity bill,
- Rent,
- Water bill,
- Cleaning Costs, and,
- Your business rates.

A portion of these costs can even be deducted if you work from home. However, you will need to work out what proportion of your home is used for business and how long you spend working on your business when you're at home. Ask us for details on how to do this – it's easier than you might imagine.

If your business has employees, then you can deduct the costs of:

- Your employee's wages,
- Your Employers National Insurance Contributions,
- Employee Childcare provisions, and,
- Training a new employee.

Make sure you claim for every allowable expense, including the £3,000 Employment Allowance if you have qualifying staff. Just by keeping track of your business expenditure will save you a great deal in tax at the end of the year. If you haven't already, dig out as many receipts as you can find now – although it would be better to keep on top of this every month.

Annual losses

Lastly, as a business owner, you can offset any losses made in the previous year against this year's profits.

The way to account for losses in previous tax years is different for sole traders and partnerships than it is for limited companies. If your loss this year was large enough, it may wipe out most or all of the tax you have to pay this year – offering a silver lining on a rough 12 months for you.

We can help

If you are looking to plan ahead for the end of the tax year and you would like some advice on how to make your business as efficient as possible, get in touch with our team. Please call us today on (telephone number) or email by clicking here.

What is the staircase tax? (general accounting, 700 words)

It's caused a lot of controversy in the press, but what exactly is the staircase tax?

It's all to do with the non-domestic rates, more widely known as the business rates.

How business rates are worked out

Each commercial premises in the UK has an "open market rental value" as determined by the Valuations Office. Whether what you pay is rent is actually the open market rental value is immaterial as it's only the opinion of the Valuation Office that decides the rate you pay.

If you're in commercial premises currently or you wish to work out what the open market rental value of commercial premises you're about to move into are, click here.

If your open market rental value is more than £51,000, you multiply that by 0.479 to find out the size of your business rates bill. If your open market rental value is between £15,001 and £50,999, you multiply it by 0.466. (Rates are different in the City of London).

If your business premises have an open market rental value of £12,000 or less, you don't pay any business rates. Between £12,001 and £14,999, you get pro rata relief on your business rates. So, if your open market rental value was £13,500 (half-way between £12,001 and £14,999), you take your open market rental value, multiply it by 0.466, and then multiply it by 50%.

Back in 2015…

…the Supreme Court came to a verdict in the case of Woolway (Appellant) v Mazars (Respondent).

This changed the way that business space was defined. As described in Accounting Web, "the VOA has begun allocating different bills for individual floors and workspaces that are only linked by public areas."

In the past, businesses which occupied multiple floors within the same commercial premises would receive just one business rates bill. That bill would cover all the occupied areas.

What's changed is that they now receive individual business rates bills per floor if the areas between the floors are communal. A business will continue only to receive one business rates bill if the connecting staircase or lift is private and for their use only, however.

Why does this matter?

Two reasons – cost going forward and cost going backward.

Going forward, having two or more separate business rates bills will mean higher ongoing yearly charges. In addition, some companies which are now deemed to have more than one premises will no longer qualify for small business rates relief.

Going backwards, the VOA is also backdating its recalculations to 2015 in England and 2010 in Wales.

Speaking to BBC News Online, Carolyn Saddington, director of digital marketers Loyalty Matters in Harrogate, explained that the agency was spread out over three offices on two floors of a building.

She said, “Our offices - because they are separated by a [communal] staircase and a small amount of carpet - are now assessed by the Valuation Office as three separate properties ...The ridiculous thing is that there is a wall between two offices. We could knock a door through then the Valuation Office would have to assess it as one property. It is absolutely crazy."

Carolyn told the BBC that if their office was a single unit, the company would be eligible for 100% rate relief but this change in how business rates are calculated means that they will have 100% tax relief on one office but pay rates on the other two. They also received a backdated rates demand of £4,000.

The future

This will go one of two ways – either the Government will come and change it to the way it was before, or it’s going to get worse.

The Sun newspaper reported that documents they had unearthed from the Valuations Office stated that, "car parking needs to be separated from offices - this cannot be avoided.”

After vocal complaining by the Federation of Small Business, Nicky Morgan, chief of the Commons Treasury Committee told the Sun that “I certainly support the FSB on this - it can’t be right for businesses to suddenly be asked to find money for something they didn’t know they might be liable for.”

Find out more

If you’d like to speak with us about the staircase tax or anything to do with business rates, please get in touch with the team on (telephone number) or email us by clicking here.

VAT on adapted vehicles for disabled customers (general accounting, 750 words)

In March 2017, HMRC issued new guidelines on who could claim for a VAT refund on adapted vehicles for disabled customers. Many of our clients work in the motor trade so here's our run-down of what you need to know.

Users eligible for VAT relief – wheelchair users

Wheelchair users who are disabled or individuals purchasing a motor vehicle on behalf of a disabled wheelchair user can claim zero-rate VAT on the supply of a motor vehicle if:

- the adapted vehicle has been designed so that the disabled wheelchair user can travel in it,
- the vehicle has been "substantially and permanently adapted" so that the disabled wheelchair used can travel in it and that without the adaptation, the disabled wheelchair user could not benefit from the vehicle, and
- the vehicle is for normal, everyday use including, quoting HMRC, "going to the shops, taking the children to school, travelling to and from work".

The adapted vehicle must seat no more than 12 people including the driver and at the time of supply, the vehicle must be supplied to a disabled person who normally needs a wheelchair or a stretcher to be mobile.

If an adapted vehicle is being purchased on behalf of a disabled wheelchair user where the use of the vehicle is primarily for the domestic or personal use of a wheelchair user, HMRC will allow a zero-rating.

A disabled wheelchair user can nominate someone to purchase an adapted vehicle on their behalf. In these cases, HMRC expect the person nominated to have a close relationship with the disabled wheelchair user and to live close by.

If you're supplying an adapted vehicle to a nominated purchaser, HMRC will require you to keep records of the following information:

- who's paying for the vehicle?
- who owns the vehicle?
- who is the registered keeper of the vehicle?
- does the nominated purchase have another vehicle for their own personal use?
- where will the vehicle be kept?
- who'll use the adapted vehicle?
- what will the vehicle be used for?
- how often will the disabled wheelchair user use the vehicle?

If the disabled wheelchair user is not allowed to legally be a registered keeper, please ask the nominated purchase for evidence to support this.

You'll need to collect a completed VAT1615A form which is filled in by the disabled person or their nominated representative.

Please note that you can't zero-rate vehicles supplied to businesses or finance houses.

Tax fact – from 1st April 2017, VAT relief is only allowable on one adapted vehicle, purchased either outright or via a finance lease, for the personal use of a disabled wheelchair user over a 3-year period. Make sure that an individual or a nominated purchaser provides you with evidence that they satisfy the three-year rule. The three-year rule does not apply if the previous vehicle has been stolen, it has been destroyed or damage beyond repair through no fault of the user, or the user's condition has changed during this time period meaning the previous adaptations are no longer suitable for the person to use the vehicle. Again, make sure you gather as much evidence as you can if you're being told that the three-year rule does not apply by an individual or a nominated purchaser.

Users eligible for VAT relief – minor adaptations and adaptations for non-wheelchair users

As we mentioned earlier, the changes to a vehicle must be "substantial and permanent" to qualify the vehicle for zero-rate VAT.

If only minor adaptations need to be made, the cost of the adaptations can be zero-rated but not the purchase of the vehicle.

If the disabled person does not use a wheelchair but still needs the vehicle to be adapted for use, again the adaptations can be zero-rated for VAT but not the purchase of the vehicle.

Repairs

If your business in the motor trade also offers repair and maintenance, you can offer that repair or maintenance at zero-rate VAT to your customer.

If an adapted vehicle you did not sell to the customer is brought in for repairs and maintenance to your business, you'll need to see the original invoice for the sale of the vehicle to confirm that it was supplied at zero-rate VAT.

Record-keeping

In addition to making sure you charge the correct amount of VAT, ensuring the 3-year rule is followed, and getting all of the customer's eligibility declarations, you also need to send a form VAT1617A to HMRC no later than 12 months after the sale of a zero-rated adapted vehicle.

For help getting to grips with the new system, please call the team on (telephone number) or email us by clicking here.

Unmarried couples to get spousal tax breaks (general accounting, 1,100 words)

More than three million cohabiting couples across the UK will now be entitled to receive the same financial safety net as those who have tied the knot; saving them billions of pounds in tax each year.

In a landmark court case last month, the Supreme Court ruled that civil partnerships should be available to both same and opposite sex couples alike. The ruling is thought to also have a major impact on couples living together outside marriage and civil partnerships regarding their tax relief and benefits.

What does it mean for your staff and your business?

Equalising civil partnerships

Same-sex marriage legislation was passed in England and Wales way back in 2013. This left same-sex couples looking to make their relationships legal with two options, and opposite-sex couples with only one.

Marriage also carries a number of religious connotations, leaving many non-religious opposite-sex couples in an awkward position.

In Steinfield and Keidan V Secretary of State for International Development, the court issued a unanimous judgement that preventing opposite-sex couples from entering into civil partnerships went against the European Convention on Human Rights and that it should therefore be made available to all..

Insurance firm Royal London have said that, whilst the ruling is a victory in its own right, they estimate that the change could also have a major impact on cohabiting couples too.

Couples who only live together are not currently entitled to the same legal rights as those who are married or in civil partnerships because, in the eyes of the law, they are not legally bound to one another.

However, in the majority of cases, these couples still share their finances with each other; putting them at a lost when it comes to tax breaks and benefits.

Helen Morrissey of Royal London says that “with each passing year, more and more people are choosing to live together as a couple without marrying, yet we still have a tax and benefit system which barely recognises their existence.

"It cannot be right that they pay the same tax and National Insurance contributions into the system as their married counterparts but are entitled to get less out of it."

The marriage allowance

The most well-known tax incentive given to married couples and civil partners is the marriage allowance.

This tax break allows you to transfer as much as £1,190 of your annual personal allowance to your husband, wife, or civil partner if they earn more than you each year. That means your partner could save an extra £238 on their tax bill; benefitting your joint financial situation.

Now that civil partnerships have been extended to opposite-sex couples, this incentive could potentially apply to unmarried couples in the UK soon too. If so, cohabiting couples would be able to share their allowances with one another to claim an extra £750million in tax relief each year; equating to £230 per household.

As long as one of you pays tax at the lower rate, or does not pay tax at all, you can give your unused allowance to your partner to reduce their tax bill.

Recent figures have also found that as many as one in four already entitled couples are missing out on their tax breaks by not claiming marriage allowance.

Sarah Coles, personal finance analyst at financial provider Hargreaves Lansdown says: "The marriage allowance was always a weird quirk in the tax system, designed to show how the government 'valued commitment' within families, by introducing yet another level of complexity to tax rules."

"However, quirk or not, if you're eligible for a tax break, it's worth taking advantage of it. As time has gone on, the backdated sums have started to add up, so a million couples could spend a few minutes with an online form and get up to £900 in their account in time for the summer holidays."

Other benefits for cohabiting couples

Following the Supreme Court's ruling, it is thought that couples that live together outside of marriage or civil partnership will also be entitled to a number of other spousal tax breaks. These include:

State pension

Many pensioners in the UK today will have reached retirement age before the 6th April 2016, meaning they fall under the old state pension system.

What this means is, in the event of their death, their surviving spouse would be able to claim the equivalent of a full basic state pension based on their partner's history of National Insurance Contributions. However, these rights would not apply to cohabiting couples.

With more than a quarter of a million people over the age of 65 living unmarried with a partner, this has left many out of pocket to the tune of approximately £2,500 a year.

The new laws brought in last month could provide more of an incentive for cohabiting older coupled to register for civil partnership to qualify for this relief.

Bereavement benefits

Married couples and civil partners of working age, i.e. those that have not yet retired, can qualify for National Insurance benefits for bereavement should their partner pass away.

This relief, however, is not currently extended to the bereaved who have lost their cohabiting partner. In 2016, Royal London estimated these couples were missing out on as much as £82 million each year as a result.

Now that opposite-sex couples can also register for civil partnership, thousands more are expected to become entitled to this relief.

Inheritance tax

Everyone in the UK has their own nil rate band for inheritance tax. This is the total amount they can gift to someone upon their death without paying inheritance tax on it. Currently, this sits at £325,000 to include all gifts, money, and property they bestow.

For married couples leaving everything they own to their surviving spouse however, there is no inheritance tax to pay at all on the first death. For unmarried couples, everything aside certain allowances is taxed at 40%.

This could also provide more of an incentive for cohabiting couples to now become civil partners; entitling them to better tax benefits should one of them pass away.

Speak to us today

If you are part of a cohabiting couple and would like to know more about how the Supreme Court's ruling could affect your tax bill, speak to your accountant today. In terms of the cost for businesses in implementing an extended marriage allowance-like tax break across qualifying couples, there should be no additional financial burden on your company.

Please call us on (telephone number) or email us by clicking here.

The marriage allowance and other tax tips for spouses (general accounting, 900 words)

They say that, when you get married, everything changes. For the longest time, that didn't apply to matters of taxation until April 2015 when the Marriage Allowance was introduced.

If you've just tied the knot, here is everything you need to know about married life and your tax affairs.

For richer, for poorer

The Marriage Allowance allows you to transfer as much as £1,190 of your yearly personal allowance to your partner if they earn more than you do.

As long as one of you has an income of £11,850 a year or less – making you don't earn enough to pay income tax – and the other is a basic 20% rate taxpayer, you are eligible for the relief.

Let's say that you work part-time in retail earning £5,000 a year. Regardless of your income, the personal allowance of tax-free earnings is £11,850. That means you have an extra £6,850 that you are not claiming.

If your husband, wife, or civil partner earns £30,000 a year and is a basic rate taxpayer, they would still need to pay tax on £18,150 of their earnings after their personal allowance has been used up.

The marriage tax allowance allows you to transfer your unused personal allowance to your partner; bumping up their own allowance to £13,040. That means they could earn an additional £1,190 a year tax-free; saving them £237 in tax.

You can even backdate your marriage allowance claim to cover previous years up to a limit of £900; so the savings you can make as a married couple can be significant.

What's mine is yours

The government also has special rules for gifting assets to your spouse.

When you give or sell assets like property, shares, or other valuable possessions in the UK you usually need to pay Capital Gains Tax (CGT) on any profit above the annual tax-free allowance of £11,700.

Fortunately for married couples, you do not need to pay any CGT on the assets you transfer to your spouse unless:

- You were separated at the time and did not live together at all throughout that tax year, or
- You gave them the goods for their business to sell on.

This means that you can easily gift your assets to your husband or wife. This can be particularly helpful when you come to sell your investments.

If you are a higher rate taxpayer, you pay between 20% and 28% CGT on your profits if you sell your assets yourself. Giving the asset to your basic-rate taxpayer spouse before selling means they will only be charged between 10% and 18% CGT on the sale of the very same asset.

Furthermore, if you jointly own assets with your partner, you can each benefit from your own tax-free allowances upon disposal. That's because married couples are still taxed independently from each other.

Let's say that you were selling a boat you owned equally with your spouse for £55,000.

You and your partner would each have a base cost of £27,500 and be able to use your £11,700 capital gains allowance on your respective halves. This means you would each only need to pay CGT on £15,800 of your profits each; doubling your tax-free allowance on the sale of your boat.

As long as we both shall live

It's never too early to start saving into a pension scheme. If both you and your spouse can contribute, you'll be able to save much towards your golden years together.

Many pensioners in the UK today will likely have reached retirement age before the 6th April 2016 and so fall under the old state pension system. This means that, in the event of their death, the surviving spouse is able to claim the equivalent of a full basic state pension based on their partner's National Insurance Contribution history.

Married couples and civil partners of working age (those that have not yet retired) can also qualify for National Insurance benefits for bereavement should one of them pass away. Speak to your accountant to find out more.

'Til death do us part

If you've only just tied the knot, wills and inheritance are probably the last thing on your mind. However it is still extremely important that you and your spouse have plans in place to make sure you save as much as you can on your tax bill.

Everyone can leave up to £325,000 to someone upon their death completely free of inheritance tax. But there is no inheritance tax to pay at all if you leave everything to your spouse or civil partner.

On top of this, if your total estate is worth less than the £325,000 threshold you can add your unused allowance to your partner's threshold when you pass away. That means they could leave behind as much as £900,000 before inheritance tax applies to your estate.

You may not be aware that any wills you have in place are voided automatically when you get married. You should draw up a new will as soon as possible following your wedding to make sure your spouse receives your estate as you wish.

We can help

Whether you're looking at joint bank accounts or buying your first home together, you and your new spouse have lots of important things to think about. While you and your spouse are busy starting your new lives together, we are here to take care of your finances for you.

If you'd like to know more about your tax liabilities as a married couple or any other tax related matters, call us today on (telephone number) or email us on (email address) for professional tax advice and guidance.

Marriage allowance versus issuing shares – which saves you more? (general accounting, 1,200 words)

Two million married couples and civil partners are missing out on the Marriage Allowance. Because so many of us have not taken up the allowance, it's saving HMRC a massive £1.3bn every year.

For our clients who are married or in a civil partnership, is this worth considering for your circumstances? By claiming it, you will, as a couple, save £230 over the year in income tax.

There is no doubt that the Marriage Allowance brings a real benefit to married couples. But, if you and your spouse or civil partner both contribute to the running of your business, is the Marriage Allowance really right for you?

We look at the options.

The Marriage Allowance and the Married Couples Allowance

Married couples and civil partnerships actually have two tax-saving schemes open to them. Which one you qualify for depends on when you and your spouse or civil partner were born.

If one of you was born before 6th April 1935, you will claim the Married Couple's Allowance. The Married Couple's Allowance will save you between £326 and £844.50 a year.

If both of you were born on the 6th April 1935 or later, you'll qualify for the Marriage Allowance if:

- the lesser earning of you is being paid less than £11,500 a year, and
- the greater earning of you is receiving between £11,501 and £45,000 a year (£43,000 in Scotland).

The Marriage Allowance allow the partner who earns less to transfer 10% of their personal allowance to the partner who is bringing home more in pay. This 10% transfer increases the higher-earner's personal allowance to £13,000 meaning a tax saving each year of £230.

Is this the right option for family businesses?

Many of Accounting Gem clients are family businesses. Husbands, wives, sons, and daughters all contribute to the success of the company.

In many cases though, there's only one family member who owns the shares and is a director. By adding your spouse or civil partner to your shareholding register, you could see a tax saving on up to £16,500 a year worth of pay coming into your household.

Getting your spouse or civil partner on board means you can double the allowances you take advantage of

As you know, every single taxpayer in the UK has an annual tax-free allowance of £11,850. If you pay yourself up to that level, you'll pay no income tax and £411.12 in Employees' National Insurance.

Every company directors also receives a £2,000 annual personal dividend allowance. That means that you only start paying tax on your dividends when you've paid yourself £2,001 or more in a financial year in dividends.

If you and your spouse or civil partner contribute to the success of the business in different ways, you can double the allowance you bring into your household by making your significant other a shareholding director.

So that's two lots of £11,850 personal allowance and two lots of £2,000 dividend allowance. If you structure your affairs in the correct way with the optimum salary and dividend split, you and your spouse or civil partner will be able to pay yourselves £13,850 each, totalling £27,700 without paying any personal income tax or National Insurance.

How would this work in practice?

Let's say that your family company is making £150,000 a year. You are the only one who gets paid by the business and you're the sole shareholder.

At the moment, your company makes £100,000 a year income. Your salary is £11,850 and Employers' NI is £472.79. Your taxable profit is £87,677.21 on which you pay £16,658.67 in corporation tax. This leaves you with a maximum dividend payable of £71,018.54. You pay £14,306.03 in dividend tax and £411.12 in personal NI. Your total take-home pay is £68,151.40.

However, let's say there are two of you as shareholding directors on a company making £100,000 a year income. There would be two lots of salary of £11,850 and two lots of Employers' NI is £472.79. This leaves a taxable profit of £75,354.42 on which you pay £14,317.33 corporation tax. This leaves a total of £61,037.08 payable in dividends to both of you. The total amount of dividend tax you'd pay for the two of you would be £4,277.78 and two lots of personal NI at £411.12.

For each of you, you'll receive £30,518.54 in dividend on which you pay £2,138.89 in dividend tax. You'll also receive £11,850 in salary on which you'll pay £411.12. That will leave each person with £39,818.53 each after all tax (personal and corporate) has been paid or £79,637.06.

Having two shareholders instead of one means that your household will be better off by £11,485.66 a year, significantly more than the Marriage Allowance.

The Employment Allowance

This offers a further opportunity to save money. If you are the sole director, shareholder, and employee in your family business at the moment, you can't avail yourself of the Employment Allowance. The Employment Allowance is a scheme which allows you to take back the first £3,000 a year of payments you make towards National Insurance Employer's Contributions.

If you're not getting the Employment Allowance, try to use up all of your dividend income because the 19% corporation tax you have to pay on the profits.

Tax fact – a dividend is a payment from a company to its shareholders from the profit it makes.

The corporation tax you'd pay is less than the 25.8% cost you'll pay on a salary payment on National Insurance Employer's Contributions and National Insurance Employee's Contributions.

You could claim Employment Allowance and both of you could pay yourself up to £11,850 each and the Employment Allowance would mean that HMRC refunds the company the two payments of £472.79 in National Insurance Employer's Contributions for you and your spouse of civil partner.

Be careful to make sure you both work for the business and you can prove it

HMRC have noticed that more and more family companies have begun to structure themselves this way since the dividend scheme was made far less attractive in the 2015/2016 budget.

Try to keep evidence to show that you're both engaged in the business and take a similar share of the workload.

Want to find out if this will work for you?

We can talk you through all the options available to you and your family about saving tax. Please call us on.

Speak with one of our team on (telephone number) or email us by clicking here.

Self-Assessment: All You Need to Know (general accounting, 1,200 words)

If you have recently decided to go it alone as a contractor, freelancer or otherwise become self-employed or, are a partner in a business, you'll need to complete and submit a self-assessment tax return.

If this is the first time you're using the self-assessment system, it can feel like a minefield – as an employee, tax is deducted from your pay slip and automatically paid to HMRC each month so self-assessment often feels like a huge burden initially and one that is easy to get wrong.

If you're fretting about filing a self-assessment tax return or simply don't know where to start, read on for our complete, plain-English guide.

Who needs to complete a self-assessment tax return?

Simply put, if you're self-employed and have earned more than £1,000 in the tax year (which runs from 06 April to 05 April the following year) or are a partner in a business, you will need to use the self-assessment system for income tax purposes.

It's also worth noting here that even if you are an employee, with a payslip and tax deductions all handled by your employer, you'll still need to file a self-assessment return if you have a small business on the side, such as selling goods via eBay, working as a freelancer in the evenings, or you have become a partner in a business outside of your main job. Likewise, if you've bought a property and rent it out, a self-assessment tax return is required.

HMRC says you may also need to self-assess if you earn tips and commission, you have an income from overseas, or you receive money from an investment, savings, or dividends (such as if you're a shareholder in a company).

Some forms of tax relief also require a self-assessment form to be filled in, including income tax relief on charitable donations as well as maternity allowance and tax-free childcare.

How to register

Now you have established you need to file a tax return, you will have to register to do so. This is crucial because, if you don't register, you won't be able to file the return and you will then have to pay a late filing penalty.

If you are recently self-employed, you need to complete this form which tells HMRC you are self-employed. This form registers you for self-assessment tax returns and National Insurance contributions. You'll need your National Insurance number to hand, contact information for your accountant if you have one plus details about your business.

If you have previously registered as self-employed, you'll also need to have your 10 digit Unique Taxpayer Reference number ready to input at this stage. If you haven't previously been registered as self-employed, you'll be given a UTR when you first register online.

You must complete this process by the 5th of October, in the second year of your business operating.

Filing your tax return

When it comes to physically filing your self-assessment tax return, you can do it online (which 92% of people do according to HMRC), file it via a supported software program or, fill in a paper form and post it to HMRC.

You can use software or your online account to file your tax return if you are self-employed, you are a partner in a business or you are filing a tax return as part of a trust or estate. You'll need to use the paper option if you are a trustee of a pension scheme.

Filing online is also an option if you live abroad.

If you have an accountant, your accountant can also file your return for you and will likely use a software program to do so.

Steps to take to file online

- Register for self-assessment and note your UTR
- Sign into your online account. To do this, you'll need the User ID provided to you in step one.
- Complete the form and submit it online

If you're using an accountant

Your accountant will request details from you relating to your income from your business or other sources (such as income from savings, dividends or selling a property).

They will complete the form and send it to you for your approval and signature – this is usually done electronically. The accountant will then submit the form for you. You must formally authorise your accountant to handle your tax affairs for you before they can submit your return. This is done quickly and easily online on the HMRC site or you can complete the authorisation form and post back.

The self-assessment tax return form

The self-assessment tax return form is eight pages long. If you are completing it yourself rather than having your authorised accountant do it for you, it's well worth taking a look over the form a week or so before you plan to fill it out and gathering all of the information and financial statements you'll need. Set aside a couple of hours to complete the form and of course, give yourself plenty of time to fill it in and file it before the 31st January deadline. The tax year ends on 05 April each year so consider starting early!

Before you sit down to fill in your form ensure you have your 10-digit UTR and your National Insurance number to hand. If you have an employer reference, you'll need that too.

The first section is easy to complete as it requires nothing more than you standard personal information. You'll then need to answer questions about your income and dividends and, depending on how that is made up, you may be required to complete additional supplementary pages.

For example, if you were employed up to 05 April 2018, you'll need to give details of your employer on a separate page. If you received income from abroad in excess of £1,000 you may need to complete a separate page. Likewise, if you received income from property rentals above £1,000, a separate sheet is required.

You'll need to input your taxable income and any expenses claimed so you'll need to keep your bank statements handy.

In certain circumstances such as if you have income or tax relief such as a married couple's allowance or seafarer's earnings deduction, you'll need to provide additional information on the stipulated page.

When completing the form, you'll need to give information about interest and dividends from UK banks, building societies, pensions etc. You'll also be asked questions about pension payments, charitable giving, marriage allowances, child benefit charges and any student loan repayments due.

Late filing and late payment penalties

If you are submitting a paper return, it must be filed by 31 October.

When filing online, your completed return must be submitted by 31 January.

If your return is filed late, you'll receive a £100 fine. After three days, you'll be fined an additional £10 per day. Interest will also be added and a fine levied for late payment.

If this all sounds too stressful or too time consuming, TFMC offers a self-assessment tax return service.

Perfect if you work for yourself and would rather spend your time building your business, our cost-effective and efficient solution means you won't amongst the one in four who file an incorrect return or one of the one million fined last year for filing late.

Find out more on our self-assessment page here or, get in touch.

Automatic pension registration for new PAYE companies (general accounting, 600 words)

If you're employing staff for the first ever time after the 1st October 2017, you'll need to register for pensions autoenrolment when you become a new employer.

This is now a statutory duty on you and you'll run the risk of paying fines to the Pensions Regulator if you don't follow the rules. Here's how to use the Pensions Regulator's online system.

Screen 1 - Are you actually a qualifying employer?

First of all, go to the Pensions Regulator's automatic enrolment page – click here.

If you:

• are a director of a business and don't plan to employ anyone
• are a freelancer
• are self-employed
• are a director in a business with a number of directors, none of whom (including yourself) have an employment contract, or
• run a business which is no longer trading

…you don't have to register. You're then asked to tell the Pensions Regulator that you're not an employer by filling in this form. You'll need your letter code, PAYE reference and Companies House number (if you have one) when completing the form.

(If you're no long employing people to work in your home, like a cleaner, a nanny or a personal care assistant, use this form to tell the Pensions Regulator).

If you're employing at least one person now, you're thinking about taking someone on, or you have staff but none of them currently earn enough to pay tax or National Insurance, you may need to register. Click the "Yes" button on the page.

Screen 2 - The age of your employee

On the next screen, you'll be asked if any of the people you employ or intend to employ are between the age of 22 and the state pension age.

Click on the option which best describes your situation. If the answer is "no", you don't have to provide a pension scheme to your staff at this point.

If your answer is "yes" or "unsure", click on the relevant button on the screen.

Screen 3 - Do my staff earn enough?

For the staff you employ between the age of 22 and up to the state pension age, you need to let the Pension Regulator know if your staff earn more than £10,000 per year (or £833 a month or £192 a week).

If the answer is “no”, you don’t need to provide a pension right now. However, when you do start to employ someone between the age of 22 and up to the state pension age and who earns more than £10,000 a year, £833 a month, or £192 a month, you will need to inform the Pensions Regulator straight away.

If your answer is “yes” or “unsure”, click on the relevant button on the screen.

If you’ve got this far, you’ll need to register

Your enrolment duties start when you employ your first member of staff between the age of 22 and up to the state pension age earning more than £10,000 a year, £833 a month, or £192 a month.

The next steps are to:

• choose a pension scheme that is applicable for automatic enrolment
• work out who to put into a pension when your duties start,
• write to your staff to tell them how automatic enrolment applies to them, and, then,
• declare your compliance to the Pensions Regulator

Get (client name) involved

Xero is an amazing online bookkeeping and accounting system in the cloud but we recommend that, when it comes to anything to do with pay and payroll, bring the (client name) team in.

Please call us on (telephone number) or email us here.

What is disincorporation relief? (general accounting, 900 words)

If you want to change your limited company status to that of a sole trader, you need to know about disincorporation relief.

It's something very few businesspeople know about and a recent Office of Tax Simplification study showed that fewer than 50 claims had been made in the three years between its introduction and March 2016.

There are two more years left before the fate of disincorporation relief is known. Either it will die via the sunset clause it was given when introduced or it will be extended for another 5 years. The Chartered Institute of Taxation are calling for it to remain with improved marketing to boost the uptake, as reported in Accountancy Age.

So, how does disincorporation tax work and is it right for you and your circumstances?

Disincorporation relief – transfers of assets

Normally, transfers from limited companies to its shareholders are treated as taking place at market value for tax purposes regardless of the actual amount paid by the shareholders.

In some cases, this would result in the company paying a Corporation Tax charge when the market value of the asset is more than its original cost or the cost minus the amount of tax written down value.

What disincorporation relief allows is below-market-value transfers to take place so that no Corporation Tax charge arises. As a shareholder, you then accept the reduced value of the transfer for any future capital gains tax computations.

Disincorporation relief – what qualifies for disincorporation relief?

"Qualifying transfers" for disincorporation relief requires all of the following conditions to be met in the transaction:

• the shareholder(s) that the business is transferred to are individuals (not corporate shareholders) and that the business is transferred as a going concern,
• the business must be transferred together with all of the business's assets or together with all the assets of the business other than cash,
• the maximum value of the total market value of the assets must be £100,000 or less, and, and
• the shareholders benefiting must have held their shares in the business for the whole 12 months before the transfer.

What are "qualifying assets"? They can be:

• land (except land held as trading stock), and
• goodwill.

Other assets like plant, stock, or the value of your debtor book aren't qualifying assets.

Disincorporation relief – are you eligible?

Disincorporation relief has a sunset clause on it at the moment – it only applies to transfers between 1 April 2013 and 31 March 2018.

Transfers can only be made to individuals who are in unincorporated partnership so that means that you can't use disincorporation relief to transfer to a Limited Liability Partnership.

Disincorporation relief – how to claim disincorporation relief

Both the company and the shareholders receiving assets must claim disincorporation relief at the same time. Claims must be made within 2 years of the transfer date but they can't be made if the company has been struck off or wound up.

If you've received the transfer, you use the transfer value as the cost of the asset when you're calculating any profit you make selling it later on for Capital Gains Tax.

The transferor (the limited company) must make its claim as part of the Company Tax Return for the period when the transfer takes place. If a company is making a claim as part of the online filing process, you will need to complete the disincorporation relief claim form and attach it to your company tax return.

Disincorporation relief – claiming if you've not received a notice to file or you wish to amend your Company Tax Return

In either of these cases, fill in the disincorporation relief claim form online, print it off, and post it to Corporation Tax Services, HM Revenue and Customs, BX9 1AX.

You can alternatively choose not to fill in the form, write to the above address, and include:

• the name, address, Unique Taxpayer Reference (UTR), and company registration number of the company assets were transferred out of,
• the name, address, UTR, and National Insurance number of each shareholder who has received (part of) the transfer,
• the transfer value of each qualifying asset for each shareholder who has had the business transferred to them,
• the date of the transfer, and
• a declaration that the business has been transferred with all of its assets or, if it hasn't, that it has been transferred with all of its assets except the company cash.

Disincorporation relief – income tax and capital gains tax

As a shareholder, you may still have to pay income tax or capital gains tax on the transfer of the assets to you from the company. If you sell it later on, you may also have to pay capital gains tax.

Disincorporation relief – is it for you?

In their report on disincorporation relief, the Office of Tax Simplification noted that many may consider the £100,000 limited too low and that the costs and hassle involved in disincorporation may be too high a cost when weighed against any potential benefits.

This is a complex area of taxation so we would strongly encourage you to use us to work out the most effective ways, in both time, taxes, and fees, of disincorporating, if this is what you've made up your mind to do.

Speak to one of the team on (telephone number) or email us at (email address).

Simple assessment - the end of the tax return (for some) (general accounting, 650 words)

Simple assessment is the new way of reporting your income to HMRC and making payment – for some.

For most of the 11 million of us who fill in Self Assessment forms, nothing's going to change. But, starting in October 2017, Simple Assessment is being rolled out, initially to these two groups of tax payers:

• those claiming a state pension for the first time but whose 2016/2017 will exceed the personal allowance limit that year (£11,500), and
• people currently contributing to the system by PAYE who have underpaid their tax but who can't have the amount outstanding to HMRC collected through their tax code.

No further word on other groups that will be included in Simple Assessment just yet however HMRC used the phrase "rolling out" so it's not unreasonable to expect further announcements soon.

Simple assessment - existing state pensioners earning over the personal tax allowance

Anyone in this category who has received their Self Assessment form for 2016/2017 should complete and return their form as normal, making payment no later than midnight on January 31st 2018.

These pensioners will start to receive the Simple Assessment form for the tax year 2017/2018 onwards.

Simple assessment – how is the new system going to work?

HMRC believe that they will be able to accurately deliver this new streamlined system through a more intelligent use of the information they already hold on file on their computer systems.

Their computer systems will now part-fill-in the Simple Assessment forms prior to the arrival of their sending out the Simple Assessment forms to taxpayers.

From September 2017, they will write to Simple Assessment taxpayers with a tax calculation. The tax calculation will display the following –

• their income from pay (that is, PAYE salary),
• pensions,
• state benefits (both tax-free and taxable benefits),
• interest earned on savings, and
• employee benefits (for example company cars, living accommodation, medical insurance, and so on)

When taxpayers receive the letter, they need to check that the information is accurate. If they believe it is, they can pay their bill online or by cheque as long as it reaches HMRC by the deadline set out in the letter.

Simple assessment – mistakes

HMRC are promising to move "customers with more complex tax affairs who continue doing Self Assessment will benefit from a modernised process in the future … (and) … (we) will complete the rest of the information automatically". That means that the Self Assessment customers will only be asked for information needed to assess their tax, benefits, and credits.

Great intention but, given the problems with the roll-out of Making Tax Digital in the last few years, we would advise customers under this regime to keep an eye out for mistakes. Better still, we'll check it for mistakes for you and get in touch with HMRC.

For Simple Assessment customers, if something's wrong, you have a shockingly short 60 days to contact HMRC to let them know about it. The types of situation where this could occur, according to the taxman's site, is when the amounts on the form or wrong or you've given HMRC information but they've not included it on your form.

Simple assessment – penalties

At the time of writing (11th October, 2017), there are no publicised penalties for missing deadlines with Simple Assessment, unlike the well-known fees and fines associated with Self Assessment.

On their policy paper, HMRC state that should someone miss their deadline, "they should contact HMRC to discuss their circumstances or financial penalties will be applied in line with current policy."

If you're unhappy with the way you're treated, you have an even shorter 30 days to tell HMRC – hopefully, that's not you but if it is, here's where you start the process.

Simple assessment – get our help

The way we report tax and pay it is undergoing a revolution and Simple Assessment is one of the many changes happening to the system.

We're here to help. Just call us on (telephone) or email us at (email address).

Taxes – sole trader vs limited company (general accounting, 800 words)

One of the first big choices many business people must make is whether they decide to set up as a sole trader or a limited company.

The choice you make will affect you financially and legally so it's always better to take advice and think carefully about the decision you eventually make.

In this article, we look at the big differences between how profits and taxes are considered whether you're a sole trader and the director/shareholder of your own limited company.

Sole trader versus limited company – sole trader profits and taxes

If you decide to set up a **sole trader**, you will pay tax on any profits you make. As a sole trader, your profit (or loss) is essentially the difference between what you've turned over and what you've spent to achieve that turnover in a financial year. That means that there is no substantive difference between profit and your personal income.

You'll pay income tax above the £11,500 threshold at 20% on income/profits between £11,500 and £45,000 (£43,000 in Scotland), 40% on income/profit between £45,001 (£43,001 in Scotland) and £150,000, and 45% on income/profit above £150,000.

You'll also pay two different forms of National Insurance – Class 2 and Class 4.

Client note – Class 2 National Insurance will be abolished from April 2018 to be replaced with a reformed Class 4 National Insurance. Keep an eye on our blog for details.

You'll pay £145.60 a year in Class 2 National Insurance (although you can claim that all back if your income/profit is less than £6,025 in the 2017/2018 tax year.

Class 4 is a 9% tax on income/profit you make between £8,164 and £44,999 in 2017/2018. Any income/profit you make above that is taxed at 2%.

Using these figures, a sole trader earning £40,000 would pay £5,799 in income tax, £145.60 in Class 2 Contributions, and £2,874,60 in Class 4 Contributions, leaving your after-tax pay at £31,180.80.

Sole trader versus limited company – limited company profits and taxes

What if you operate a limited company and make £40,000 profit? How could you extract the cash and what would it cost you?

In the example, the sole trader made £40,000 profit. For our limited company example, we'll assume that the limited company also made £40,000.

Most limited company directors pay themselves with a mixture of salary (subject to National Insurance and income tax) and dividends (a share of the profits from your business). The income tax levels a company director pays are just the same as a sole trader. Because company directors are classed as employees, they pay Class 1 National Insurance and not Classes 2 or 4.

Directors receive a £5,000 dividend allowance – meaning they pay no tax on the first £5,000 of after-corporation-tax profits they pay themselves. If a director is a basic rate tax payer (which they will be with a household income of £32,400 (company profits minus corporation tax), they'll pay 7.5% tax on dividends above the first £5,000.

Salary is a cost to your business and reduces your corporation tax. Dividends are not a cost to your business and they do not reduce your corporation tax.

To decide the best split between salary and dividends, this is where your accountant comes in.

Your company made **£40,000** profit. You decide to pay yourself **£8,164.00** in salary – this is the maximum amount of salary you can take home without paying anything in income tax or National Insurance.

This £8,164 reduces your profit to £31,836, on which you have to pay 19% corporation tax, taking your declared profit down to **£25,787**.

You still have £3,336 of your personal allowance remaining for the year (that's £11,500 minus the £8,164 you took in salary). You can take the £3,336 away which leaves you with **£22,451.16** you can pay yourself in dividends.

The first £5,000 of the £22,451.16 is tax free and you pay 7.5% on the remainder, meaning a dividend tax bill of **£1,308.84**.

So, what's left? From your original £40,000, you've paid £6,048.84 in corporation tax and £1,308.84 in dividend tax. This leaves you with a total take home pay of **£32,642.32**.

Sole trader versus limited company – limited company wins this time

A sole trader would keep £31,180 of his or her £40,000 whereas a director would keep £32,624.32 – a difference of £1,444.32 to the benefit of the director and not HMRC.

In most cases, it's better, even for small, one-person companies, for the director to pay him or herself using dividends. But it's not always the case.

If you're looking to set up a business and want to work with an accountant with a great deal of experience with both sole traders and limited companies, we'd love to hear from you.

Alternatively, if you're a sole trader wanting to incorporate or a company director wanting to disincorporate and become a sole trader, we're here to help.

Please call us on (number) or email us (email).

Everything you need to know about payments on account with HMRC (general accounting, 900 words)

Many people believe that, when they submit their Self Assessment form by the 31st January, they also have to make full and final settlement of their tax bill at the same time. Well, that's not the case and this is something we're getting asked more and more about here at Sunny Accountants.

You can actually break the payment into two equal amounts. Is that right for you? And how does it work?

Two payments, not one

It would be nice if payments could be split into 4 or even 12 parts but when you make payments on account, there are just two payments. You pay the first half of your tax bill by the 31st January and the remainder is paid later in the year.

The system is pretty straight forward but there are a couple of ways that taxpayers can be caught out. Let's examine them…

Case Study – Jack's Japanese Giant Hornet Factory

Remarkably, Jack has found a niche for door-to-door delivery of the incredibly aggressive Japanese Giant Hornets.

These 6cm-long monsters, famed for preying on defenceless bees and whose venom attacks the nervous system, have become the latest must-have pets and Jack has cornered the British market.

In his 2015/2016 tax year, business has been brisk but stable. This is the fourth year we've worked out Jack's tax bill at £50,000. On the payments on account system, Jack's instalments are based upon his previous year's tax.

So, on 31st January 2017, Jack pays £25,000 to HMRC. On 31st July, he pays the remaining £25,000 off.

2016/2017 was the breakthrough year and we've worked out Jack's tax to be £70,000 – a significant increase on the previous year.

Because Jack's instalment plan is worked out on his previous years, his payments will stay at £25,000 in January 2017 and £25,000 in July 2017. But that's going to leave HMRC short by £20,000 because his 2016/2017 year yielded a much bigger tax payment due.

The additional £20,000 must be paid by 31st January 2018 and that's called the "balancing payment".

How is this worked out?

The 2015/2016 financial year saw a tax liability of £50,000 while the 2016/2017 period saw an £70,000 tax liability.

In 2017, Jack would pay £25,000 by 31st January – that's half of his tax from the 2015/2016 tax year. His following and final payment would be for the same amount – again, half of his tax from 2015/2016.

In 2018, Jack's first payment would be the £20,000 balancing payment (the difference between what was paid in tax during 2017 and the total tax due for 2016/2017) plus £35,000, half of his tax from the 2016/2017 tax year. His following and final payment would be for £35,000 – again, half of his tax from 2016/2017.

If you have already paid 80% or more of the tax that you owe, you don't have to make two payments in a year.

The same is true if your self-assessment bill is £1,000 or less. Be prepared for this situation though because if your tax bill one year is £900, you don't need to make a payment on account. But, if in the year after your bill is £1,500, you will have to pay £2,250 on 31st January.

You can vary your payments

What if, unlike Jack, your previous years have been much better than this one and this is a bit of an *annus horribulus* for your company?

First of all, don't panic. Even the best businesses have years which are really tough. Plus, it's easy to be the captain of a ship when it's plain sailing but your leadership skills are only really tested when the seas are rough and the weather terrible. This bad period will end and you'll come out as a much better businessperson as a result.

You can apply to HMRC to have your payment on account reduced. For many business owners, this buys them extra time to make their business better and build trading and profit levels back to historic norms.

However, please beware. Business is anything but predictable and your slump in sales may not have bottomed out just yet – there may be a few more months of difficult times ahead. All successive underpayments will do is push the outstanding amount of tax you owe even higher and this can store up big problems for the future.

What about the first year's payment – how is that worked out?

This is one of the questions we're asked the most here at Sunny Accountants.

Once your first year (2017/2018) is complete, let's say your tax bill is £10,000. You will need to make this payment in full by 31st January 2019 plus an additional 50% meaning that HMRC will receive £15,000. The extra 50% is your advanced payment towards your return on 31st January 2020.

You will then pay HMRC an additional £5,000 by 31st July 2019. When this payment is made, you've now paid £10,000 towards your 2018/2019 tax bill.

If you have overpaid, you will receive a rebate. If you've underpaid, that's when the balancing payment system will activate.

Talk to us

We're here to help, in good times and bad. If you want to find out more about payments on account and are wondering if it's suitable for you, then please give the team a call on (telephone number) or email us by clicking here.