

Summer 2017

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CHARTERED ACCOUNTANTS

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Financial news that's relevant to you.



INTRODUCTION

The recent election seems to have created more problems than it has solved. The expected Conservative landslide did not materialise and the Tory party are now fighting to continue with a minority government.

From a tax point of view, Philip Hammond is still the incumbent at number 11 Downing Street, and we should see the held-over majority of the Finance Bill 2017, re-presented to parliament before the Summer recess.

At present, it is difficult to advise on certain topics as the required legislation is in limbo. Hopefully, the expected Finance Bill Number 2 will appear and we can get on with the job.

That, at least, will sort out short-term anxieties. Longer term, we await the progress of Brexit negotiations and what effect that process will impose on the UK economy and smaller businesses in particular. It would appear that certainty is going to become a rare commodity in the UK, particularly with regard to business confidence as we face up to the majority view taken by the electorate in recent elections.

PRACTICE NEWS

Fee protection

If you submit a tax return, you could be liable to be investigated by HMRC. Protect yourself from the costs that arise from an investigation by signing up to our Fee Protection Scheme. Contact us for more information.

MTD software options

Now that the election dust has settled, we can start to take the implementation of HMRC's Making Tax Digital (MTD) process a little more seriously.

The change to MTD is possibly the most significant change in tax compliance since the introduction of Self



Assessment in April 1996. We advise against leaving everything to the last minute. Head in the sand will not cut muster, as HMRC is likely to introduce penalties if you fail to meet their quarterly upload deadlines.

And landlords, don't forget, MTD will apply to you as well as other non-property related businesses. Keeping your property records in a diary will not meet HMRC's standards once you become liable to MTD filing obligations.

Once we know more about the starting dates for MTD we will let you know and discuss how this will specifically affect you.

BUSINESS

Extracting funds from your company

There are a number of ways that director shareholders of private companies can withdraw funds from their businesses. We have listed below a few of these options.

1. Recent changes in legislation now allow a withdrawal by director shareholders and their close family, of up to £300 a year in non-cash benefits as long as each "gift" does not exceed £50 and is not related to employment. Potentially, these so-called "trivial benefits" can also be provided to non-family employees, and without the £300 annual cap.
2. Directors who have lent their company significant funds, can receive interest

at a commercial rate on the funds deposited. There are a number of reliefs that may be available to reduce tax on interest received, and even if these do not apply, the interest payment will not attract an NIC charge.

3. Directors aged below the state retirement age will no doubt want to ensure that they are still making NI contributions that will qualify them for the State Retirement Pension. Many directors ensure that they pay themselves the minimum salary to achieve this planning objective. There is no need to increase salary above this minimum limit as by doing so, additional NI contributions will apply. It is more effective to take additional funds as dividends.
4. Dividends remain the most tax efficient method of taking retained profits from your business. The annual tax-free limit is still £5,000. Dividends drawn in excess of this will be taxed at 7.5%, 32.5% or 38.1%, all dependent on where the dividend income slots into the basic, higher or additional rate Income Tax bands. Also, dividends continue to be exempt from a NIC charge. A final point to remember, dividends can only be taken from your company's retained profits so it is important to check your balance sheet before making payments in this way.
5. Recent legislation has mitigated against the practice of taking benefits in place of remuneration – so-called salary sacrifice arrangements. In future years these benefits may be taxed as if they were salary. There may be short-term benefits in exploring these options, and these should be considered. Longer-term, other planning strategies may be required.
6. If director shareholders have children, 18 years or older, it may be possible to issue them with company shares and pay them a small dividend each year. Currently, there is potential here to provide over 18s with a £5,000 annual, tax-free income.

As you can see, extracting funds from a company can be achieved in a number of different ways, and these options should be considered with some care. Please call if you would like more

information on any of the topics raised in this newsletter.

Where is my profit?

This is a question we are regularly asked by clients. Usually, the conversation is triggered when we discuss the end of year accounts.

Before we explain why profits are not always represented by cash in the bank, we need to define the term "profits". Profits are the difference between what you sell and the costs associated with making those sales.

Consider Jeremy, who runs a small shop selling clothing. He started his business by introducing £5,000 of his own money and at the end of his first trading year his summarised results were as follows:

- Sales £100,000
- Goods purchased and sold in the year £60,000
- Other costs paid for in the year £15,000
- Stock at end of year valued at cost £7,000
- Drawings for personal use £16,000
- Bank balance £7,000

His accounts show profits of £25,000 (This is made up of sales of £100,000, less cost of goods sold of £60,000 and less other costs £15,000).

So why, Jeremy asks, is there only £7,000 in his bank account?

The answer is that at the end of the year Jeremy had withdrawn £16,000 for his own private use and he had purchased £7,000 of stock that was unsold at the end of the year. We also need to take into account that Jeremy introduced



£5,000 of his own cash when the business started.

The reconciliation of his profit and the bank balance is therefore: Profit for the year £25,000, less personal drawings £16,000, less stock £7,000, plus own capital introduced £5,000, equals £7,000 – his business bank balance.

We can deduce from this explanation that in order to reconcile profit and cash flow you need to factor in receipts and payments that are not taken into account when calculating profit. In Jeremy's case, capital introduced, stock and and personal drawings.

Keeping a mileage log

Why do you need to keep a mileage log?

If you are self-employed, as a sole trader or in partnership, and you use a business vehicle for private purposes, HMRC will seek to disallow any motoring costs, petrol etc., and capital allowances based on the purchase cost of the vehicle, to cover the private use proportion.

The only practical way that you can do this is to record your car mileage at the beginning and end of your trading year, to ascertain the total miles for the period, and a log of your business miles.

At a minimum, you should be able to provide evidence of total annual mileage and a detailed record of business mileage for the same period. The log should include the following information:

- Date of the business use
- The address you were attending and the round trip mileage
- The reason for the trip

This could be recorded in a diary kept in your car or by using one of the multitude of Apps now available for this purpose.

Armed with this information, any disallowance of running costs and capital allowances will be fairly based and not some arbitrary figure dictated by HMRC. Estimates will not cut muster



with the tax office, you will need to back up numbers with evidence.

If you are employed, have the use of a company car, and your employer pays all of your petrol, including that used privately, then you will be subject to the car fuel benefit charge. The only way to avoid this tax charge is to repay your employer for petrol used privately. To do this you will need to keep a log of all private journeys. At the end of each tax year, or periodically during the tax year, you should multiply the private use miles by the approved car fuel rate - this can be accessed from the HMRC website at <https://www.gov.uk/government/publications/advisory-fuel-rates>. Just multiply the private use miles by the appropriate rate per mile and pay this amount to your employer.

If you want your motoring costs fairly apportioned for private use, you should keep a mileage log.

PERSONAL

What happens if you can't pay your tax on time?

If you are facing cash-flow issues, and cannot afford to settle part, or all of your tax payment due 31 July 2017, what is the best strategy to avoid confrontation with HMRC and thus minimise any penalties and interest charges?

Firstly, let's take a look at penalties. The trigger dates for penalties are 30 days, 6 months and 12 months after the tax became due for payment. On each of these trigger dates you will be charged a 5% penalty based on the amount of tax outstanding.

The current interest charge on unpaid tax is 2.75%.

If you are concerned that you may not be able to meet your liabilities as they fall due, and in particular, any payment due 31 July 2017, we recommend a two-pronged approach.

- Firstly, make a realistic estimate of when you can settle amounts due. This may be instalments or payment in full at a time after the due date.
- Secondly, call HMRC's Business Payment Support Service on 0300 200 3835, and agree an extended payment scheme with them. Generally speaking, they will agree to extended deadlines as long as your suggested scheme clears any outstanding liability before your next liabilities become due for payment – in most cases, before 31 January 2018. They will also exhort you to gather funds such that you can settle future tax on the due dates and in full.

What is inadvisable, is to bury your head in the sand and wait for the brown envelopes, telephone calls and debt collectors at your front door. Work out a realistic repayment plan, call the help line before the tax falls due and keep to your agreed settlement plan.



Tax-free childcare extended

The government has launched a new website aimed at parents who may be able to claim for support with childcare costs. The web address is <https://www.childcarechoices.gov.uk>.

How tax-free childcare works:

Working parents will be able to apply, through the childcare service, to open an online childcare account. For every £8 that families or friends pay in, the government will make a top-up payment of an additional £2, up to a maximum of £2,000 per child per year (or £4,000 for disabled children). This top up is added instantly and parents can then send electronic payments directly to their childcare providers.

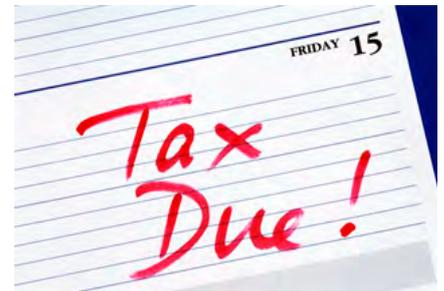
All registered childcare providers – whether nannies, nurseries or after school clubs – can sign up online now to receive parents' payments through tax-free childcare. Once childcare providers have signed up they will appear on the Childcare Provider Checker. This allows parents to check whether childcare providers have already signed up for tax-free childcare.

How 30 hours' free childcare works

Eligible parents will be able to apply online through the childcare service. They will receive a code – this will allow parents to arrange their childcare place ahead of September 2017.

Parents can take their code to their provider or council, along with their National Insurance Number and child's date of birth. Their provider or council will check the code is authentic and allocate them a free childcare place.

Parents can quantify the amount that they may be able to claim using the [gov.uk childcare calculator](https://www.gov.uk/childcare-calculator) at <https://www.gov.uk/childcare-calculator>



Late filing tax cases

HMRC has won a raft of tax cases recently, all relating to tax payers who were late when filing their tax returns.

Excuses varied, but mainly related to a "misunderstanding" of HMRC's online filing processes.

This does not bode well for tax payers if HMRC's drive to Make Tax Digital proceeds. Part of this process requires businesses (including landlords) to upload or amend data five times a year – potentially, this multiplies the risk that these quarterly and annual filing obligations will be breached and penalties will be applied.

In recent tax cases, it is evident that tax payers did not appreciate the relevance of receiving formal confirmation from HMRC that their returns had been successfully filed; they assumed all was well.

HMRC has published the following examples of reasonable and unreasonable excuses:

What may count as a reasonable excuse

A reasonable excuse is normally something unexpected or outside your control that stopped you meeting a tax obligation, for example:

- your partner or another close relative died shortly before the tax return or payment deadline
- you had an unexpected stay in hospital that prevented you from dealing with your tax affairs
- you had a serious or life-threatening

illness

- your computer or software failed just before or while you were preparing your online return
- service issues with HMRC online services
- a fire, flood or theft prevented you from completing your tax return
- postal delays that you couldn't have predicted

You must send your return or payment as soon as possible after your reasonable excuse is resolved.

What won't count as a reasonable excuse

The following won't be accepted as a reasonable excuse:

- you relied on someone else to send your return and they didn't
- your cheque bounced or payment failed because you didn't have enough money
- you found the HMRC online system too difficult to use
- you didn't get a reminder from HMRC
- you made a mistake on your tax return

If you have a disability and claim to have a reasonable excuse preventing you from meeting the deadline, HMRC will consider whether you made a reasonable effort to meet your obligation on time.

EMPLOYMENT & PAYROLL

Work related training

As a general rule of thumb, it is not necessary to report details of work related training to HMRC. In effect, these training costs can be claimed by employers as valid costs and there is no taxable benefit that would create a tax charge for employees.

HMRC's definition of work related training is:

"... defined as any training course or other activity which is designed to impart, instil, improve or reinforce any knowledge, skills, or personal qualities

which:

- are, or are likely to prove, useful to the employee when performing his/her duties or
- will qualify or better qualify the employee to undertake the employment, or to participate in charitable or voluntary activities arising through the employment.

The training must relate to the employee's current employment or to a "related employment".

There is no restriction on the way the training can be delivered. Self-tuition packages, computer based training, distance learning, work experience or work placement and informal teach-ins are all acceptable as are more formal classroom based methods. It does not matter whether training is delivered internally or externally, or on a part-time or full-time basis.

A wide range of practical and/or theoretical skills will qualify for exemption so long as the skills are relevant to the employee. Where leadership and team skills are appropriate to the employee, participation in activities such as Outward Bound, Raleigh International, or Prince's Trust will qualify. Work related first aid and health and safety courses will also qualify.

Some employers operate Employee Development Schemes, often aimed at those employees with low skills levels. These seek to improve an employee's attitude towards training by commencing with enjoyable courses as an introduction to more concentrated job-related training. All elements of



genuine schemes will qualify."

Expenses and benefits for employees

A reminder that until 2015-16, it was possible to apply for a dispensation to exclude certain expenses and benefits provided to employees from the year end returns to HMRC: primarily the submission of forms P11D. These dispensations ceased to be effective from 6 April 2016. From this date many of the expenses covered by dispensations were exempted from the benefits legislation.

The sorts of expenses covered include:

- business travel
- business phone bills
- business entertainment expenses
- uniform and tools for work

To qualify for an exemption, employers must either be:

- paying a flat rate to their employee as part of their earnings, this must be either a benchmark rate or a special ('bespoke') rate approved by HMRC, or
- paying back the employee's actual costs

Employers do not have to formally apply for exemption if they reimburse using HMRC's benchmark rates for allowable expenses. You should only apply if you want to use your own rates as these rates will need to be agreed with HMRC. There must be systems in place to check the payments are as agreed with HMRC.

Filing deadlines:

A further reminder that filing deadlines for P11D forms and associated returns were:

- 6 July 2017 – file forms P11D
- 6 July 2017 – give employees a copy of their P11D
- 6 July 2017 – submit return of Class 1A NIC due on form P11D(b)
- On or before 22 July 2017 (19 July 2017 if paying by cheque) – pay any Class 1A NICs due

If you have missed the filing and/or payment deadlines, submit the forms and pay any outstanding Class 1A NIC as soon as you can.

There is a fixed penalty of £100 per 50 employees for each month or part of a month the P11D(b) return is late. There are also penalties and interest if your payments of Class 1A NICs are paid late.

Don't forget that the earnings rate of £8,500 pa for a P11D to be required was abandoned from 6 April 2016, so that employees who previously needed a form PD9 will now need a P11D.

VAT & DUTIES

Uber dodging VAT obligations?

In a recent tribunal case it was established that Uber's drivers were not self-employed and have rights for employment law purposes.

A QC was sufficiently peeved, when Uber declined to give him a VAT invoice, that he has challenged the issue in the High Court. His contention, that as the drivers are not self-employed their income should be considered Uber's and therefore, it is reasonable to assume that their consolidated income must be in excess of the VAT registration limit.

Transport services for VAT are standard rated unless the vehicle can carry ten or more passengers.

Are you in the best VAT scheme?

Many businesses register for VAT and pay VAT each quarter based on the output VAT added to their sales invoices, less any input VAT included in the invoices for goods and services they buy.

For many concerns this may be perfectly acceptable, and for many larger businesses this may be the only way to calculate VAT due.

However, smaller concerns have



options. For example:

- The VAT Flat Rate Scheme allows smaller firms to calculate VAT due by applying a fixed percentage rate to their sales including VAT; in some cases, this can actually produce cash savings. The outcome depends on business classification and whether the relationship between costs and income are appropriate. The scheme is only available to businesses with an annual turnover up to £150,000 (excluding VAT).
- Cash Accounting for VAT, this scheme allows you to pay over VAT when you receive payment from your customers, less any payments of VAT you make to suppliers. This can be useful for businesses that usually have more owing to them from customers than they owe their suppliers. Again, there is a turnover limit. To use the cash accounting scheme your turnover must not exceed £1.35m.
- Annual accounting allows you to submit just one VAT return a year, and pay your VAT by monthly instalments and an annual adjustment. This simplifies VAT management and smooths the cash flow settlement of amounts due. As for cash accounting, you can only use this scheme if your annual turnover is not expected to exceed £1.35m.

If you have never considered a special scheme for your business we can provide you with a forecast of potential benefits, advise you if a particular scheme would benefit your company, and help you set up systems to manage the change, including any adjustments required to your accounts software.

MISCELLANEOUS

Civil servants released from purdah

Readers may or may not be aware that during the recent "electioneering" period, civil servants were not allowed to speak to voters, in effect they were subject to a gagging order.

The pre-election 'purdah' period before general elections is not regulated by statute, but governed by conventions based largely on the Civil Service Code. The Cabinet Office issues guidance for civil servants in UK government departments, and the staff and members of non-departmental public bodies and other arm's length bodies on their role and conduct during election and referendum campaigns.

The practice is a nightmare for tax advisors as it is difficult to seek guidance on policy. For example, in order to deal with outstanding parliamentary business before parliament was closed down, a large part of the Finance Bill 2017 was placed in abeyance pending the outcome of the election.

However, election day has passed and we should start to see a recommencement of announcements from government departments, without them first needing to seek approval from the Cabinet Office.

As Phillip Hammond is to continue as Chancellor of the Exchequer, we should expect the held-over part of the Spring Finance Bill to be re-introduced to parliament for further scrutiny, whether the government's minority status in the House of Commons will affect the outcome, we will have to wait and see.

FINANCIAL CALENDAR

July 2017

- 5 Final date to agree 2016/17 PAYE Settlement Agreements (PSA).
- 6 Last date for returns of expenses and benefits (forms P11D, P9D and P11D(b)) for 2016/17 to reach HMRC. Relevant employees to receive copies of forms P11D and P9D.
- 6 Last date to submit annual returns for employee share schemes and employment-related securities for 2016/17 (forms 34, 35, 39, 40 and 42).
- 14 Due date for CT61 return and CT payment for quarter to 30 June 2017.
- 22 Class 1A NICs for 2016/17 due (19th if paid by cheque).
- 31 Due date for second payment on account of 2016/17 Income Tax and Class 4 NICs.
- 31 Last day to pay 2015/16 tax to avoid second automatic 5% surcharge (unless late payment agreed with HMRC).

August 2017

- 2 Submit employer forms P46 (car) for quarter to 5 July 2017

October 2017

- 5 Deadline to notify HMRC of chargeability to Income Tax or CGT for 2016/17.
- 14 Due date for CT61 return and CT payment for quarter to 30 September 2017.
- 31 Deadline to submit 2016/17 Self Assessment tax return if filed on paper.

November 2017

- 2 Submit employer forms P46 (car) for quarter to 5 October 2017.

December 2017

- 30 Last day to submit 2016/17 tax return online to have unpaid tax of up to £17,000 collected through the 2018/19 PAYE code. The amount of debt that can be coded out in a year ranges from £3,000 to £17,000 based on a graduated scale.

January 2018

- 14 Due date for CT61 return and CT payment for quarter to 31 December 2017.
- 31 Submit 2016/17 Self Assessment return online. Pay balance of 2016/17 Income Tax and CGT plus first payment on account for 2017/18.

February 2018

- 2 Submit employer forms P46 (car) for quarter to 5 January 2018.

March 2018

- 31 Last minute planning for 2017/18 tax year. Make sure to use any CGT and IHT annual allowances and exemptions.

April 2018

- 5 Last day of tax year (6 April 2018, first day of new tax year).



- 14 Due date for CT61 return and CT payment for quarter to 31 March 2018.

May 2018

- 3 Submit employer forms P46 (car) for quarter to 5 April 2018.
- 31 Last day to issue 2017/18 P60s to employees.

Every month:

- 1 Annual Corporation Tax due for companies with a year ending nine months and a day earlier, e.g. tax due 1 January 2018 for year ending 31 March 2017.
- 14 Quarterly instalment of Corporation Tax due for large companies (depending on accounting year end).
- 19 Pay PAYE/NIC and CIS deductions for period ending 5th of the month if not paying electronically. Submit CIS contractors' monthly return.
- 22 PAYE/NIC and CIS deductions paid electronically should have cleared into HMRC bank account.
- 30/31 Submit CT600 for a year ending 12 months earlier. Last day to amend CT600 for a year ending 24 months earlier.

If the due date for payment falls on a weekend or Bank Holiday, payment must be made by the previous working day. Electronic payments sent using the Faster Payments Service (FPS) are able to clear into HMRC's account on a non banking day – a Saturday, Sunday and most Bank Holidays.

File accounts with Companies House for private companies with a year ending nine months earlier and for public companies with a year ending six months earlier.

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