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Your quarterly newsletter from DNS Accountants LLP

Autumn 2018

Welcome!

Welcome to our autumn edition, and while the temperature may be dropping, we'll be keeping the heat on to get your business finances right! We start by talking through the difference between capital and revenue expenses, below, before focusing on taking time out of your day to develop your business (page 2).

Also overleaf – if you're married, why not check if the marriage allowance can brighten up your day.

For limited company directors, we run through a reminder of the optimal salary levels to draw from your company (page 3) and for all businesses we talk through HMRC's technical guidance in the event of a 'no deal' Brexit scenario in March 2019.

Finally, on page 4, we bring you a reminder of the importance of getting your accounts and income tax returns right over the years. Our tribunal example of a man who let errors build up over the years doesn't make for light reading!

Sumit Agarwal. Managing Partner

INSIDE

LETTING ON THE RIGHT TERMS

Make sure you're getting the most out of your property business

If you run a property letting business, do you know what your accountant means by 'capital versus revenue' expenditure?

First things first, if expenditure can be classified as revenue then it is generally allowable and can reduce profit and tax on your property income. Conversely, if it is capital expenditure, it will not be an allowable expense – but depending on the nature of the capital expenditure it may be possible to claim capital allowances to reduce tax.

REVENUE

Any expenses incurred in the day-to-day running of your business can be described as revenue expenditure. Examples would be repairs to the property which return it to its original state rather than improve it; some of the interest paid on the mortgage; managing agent fees; and council tax for vacant periods.

If the expense is incurred for mixed purposes (ie both private and business), the business element will be allowable in cases where the expenditure can be accurately apportioned. It's important to remember that if the letting falls under 'rent a room relief', then the costs of repairs are not allowable as a deduction, unless the property owner opts out of the scheme.

CAPITAL

Capital expenditure is the purchase or improvement of an asset used for the property business – for example, an extension or renovation; purchase of assets such as office equipment; vehicles acquired for business use; or furniture for a furnished property. Capital allowances can be claimed for the purchases of 'plant and machinery' such as computers and vehicles, but not on furniture and household equipment for a furnished property.

There are, however, exceptions for furnished holiday lets, so check with your accountant if you are unsure! Also, be aware of 'replacement domestic items relief' with regards to furniture and household appliances, as this can be claimed for the cost of replacing domestic items.

If you buy a run-down property for a reduced price and subsequently restore it to the required state to attract tenants (eg rewiring), this would be capital expenditure. Painting and decorating would be an allowable repair, however, on the basis that it will be required every few years.

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TAKE TIME TO GROW YOUR BUSINESS

Your accountant delivers your accounts on time and with accuracy – but how can they help develop your business?

HERE ARE OUR FIVE TOP TIPS:

1. Look forward as well as back
Once you have a set of historical accounts, you feel on track, right? Wrong! Yes, the historical data is essential to pay your taxes and to understand how the business has performed, but the best way to develop your business is to take trends from its history, to enable a realistic strategy for the future through a concrete forecast. Ensure that you are also aware of the costs involved in achieving this strategy and the return on investment.

2. Set goals and measure your business against them
Set goals for continuous improvement towards your strategy that are both realistic and have the highest impact. These goals should be set annually and monitored monthly for maximum effect.

Historical data is essential to understand how the business has performed, but the best way to develop your business is to take trends from its history, to enable a realistic strategy.

Part of the goal-setting process is establishing Key Performance Indicators (KPIs) to measure your business against (eg time taken to resolve customer support issues, employee turnover rates, outputs produced per hour). This will enable your business profits to be maximised using management information, rather than purely focusing on tax compliance.

3. Be dynamic
You can't change past performance, but you can certainly manage future business opportunities by building enough flexibility into your goals to respond to changes in the external environment. Resolve to do one thing related to new business every single day, to create a steady pipeline of development opportunities.

4. Get expert advice where necessary
This doesn't just have to be financial, tax or planning advice from an accountant. By planning appropriately, it will be possible to set aside budget for other experts that you will need to help you reach your goals. This could be enlisting the help of a sales and marketing expert, or someone who can speed through the admin at low cost to free up your time to focus on other areas.

5. Have the right contracts in place
Your accountant should be able to review your contracts and provide tips on how to benefit most from a cashflow and control perspective. This will help provide more certainty with customers and suppliers that you already have in place, allowing you to take risks in other areas of development.

Please get in touch if you need help getting started on your own business development strategies.

For better..?

Did you know that the marriage allowance could reduce your tax bill as a couple in a marriage or civil partnership by up to £238 a year?

The marriage allowance came into effect over three years ago, in April 2015, but HMRC statistics show that more than 2m couples failed to claim it last year!

It works by transferring £1,185 (10%) of your personal tax-free allowance to your married or civil partner if they earn more than you and you earn less than the tax-free allowance of £11,850. The higher earner will only be eligible if they are in the basic rate tax band, meaning their salary cannot exceed £46,350. If you receive additional income, such as from dividends or savings, phone the income tax helpline for advice on 0300 200 3300.

If you are eligible but haven't claimed to date, you can backdate the claim to April 2015 – so for the tax years 15/16, 16/17 and 17/18 you could be collecting £662.

Apply online at gov.uk/apply-marriage-allowance. The non-taxpayer must apply and will require both national insurance numbers and a way to prove their identity (eg a passport or the last four digits of a child benefit account).

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What's the optimal salary level to extract cash from a limited company?

The right wage

To arrive at the optimal salary level, firstly assume that a director's personal allowance is available (£11,850 for 2018/19) without it being used up for pensions or other employment/rental/investment income.

Next, we consider if the employment allowance is available. This is the allowance that will reduce your employer's secondary class 1 National Insurance (NI) each time you run your payroll, until the £3,000 is used up or the tax year ends.

If the sole employee of the company is also a director, the employment allowance is not available. Therefore, it would make most sense to pay a salary somewhere between the lower earnings limit and the primary and secondary National Insurance Contributions (NIC) threshold (between £6,032 and £8,424 for 2018/19). In this case, there will be no NI or PAYE to pay, but there will be notional NIC at zero rate that contribute towards state pension and benefits.

If the sole employee decides to pay themselves a salary of more than £8,424 then the NIC cost of 12% for the employee and 13.8% for the employer would outweigh any corporation tax saving (corporation tax is 19% for 2018/19).

If the employment allowance is available or the employee is under 21, a higher salary can be drawn as the employment allowance absorbs the NI cost – a salary of £11,850 (the 2018-19 personal allowance) in this case. The director will have to pay some employee NI, but this is more than offset by the corporation tax saving on salary paid above the primary threshold.

Where the director's salary exceeds the personal allowance of £11,850 for 2018/19, the excess salary will attract tax at 20% and employee's NI of 12%. Totalling 32% tax, this is greater than the 19% corporation tax saving on that extra salary paid.

DEAL OR NO DEAL?

We look at what a 'no deal' Brexit scenario could mean for us

There are mutual interests for the UK and EU in negotiating a win-win deal for Brexit, but the government has also thought about what will happen in the case of a 'no deal' outcome in March 2019. One area for consideration is the implications of VAT rules for goods traded between the UK and EU member states, which has been covered in the UK Government's paper *VAT for businesses if there's no Brexit deal*.

Overall, a no deal scenario would mean that existing VAT simplification measures between the UK and EU would come to an end. Supplies of goods to and from the EU would be treated as imports and exports, with different reporting, payment and refund implications. The UK VAT system would largely emulate existing procedures with non-EU countries.

Imports

For UK businesses importing goods from the EU, a no deal scenario would mean that rules for imports from non-EU countries would apply. The government would introduce what they call 'postponed accounting' for goods imported into the EU, meaning that UK VAT registered businesses can account for import VAT on their VAT returns, rather than paying when the goods reach the UK border.

Another area affected by a no deal scenario is parcels sent by overseas businesses. Low Value Consignment Relief will be abolished for all parcels arriving from EU and non-EU member states. Parcels will be subject to import VAT on entering the UK, unless they are zero-rated goods.

Exports

When UK businesses export goods to the EU, businesses will continue to be allowed to zero rate sales of goods – EC sales lists will no longer be required. Any exports to private individuals will be zero rated.

For services supplied into the EU, insurance and financial services rules may change in terms of input tax deduction rules, but HMRC have yet to clarify. For businesses supplying digital services to the EU, the place of supply will remain the same as currently, where the customer resides.

VAT refund systems to claim refunds of VAT from EU member states will still exist, but will follow the processes for non-EU businesses. Some EU member states may be slow at issuing refunds to non-EU member states and therefore UK businesses need to be aware of this impact on their cashflow.

Making Tax Digital

The UK formally leaves the EU the month before HMRC introduces its Making Tax Digital programme in April 2019, which will require UK businesses to submit their VAT returns online. Businesses should continue to prepare for this change regardless of the outcomes of EU negotiations.

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Don't ignore your tax obligations – the penalties can be harsh

PLAY BY THE RULES!

Appeals against income tax and penalty assessments taken to tribunal rarely succeed, according to research. This is the case for all late tax payments where there is no reasonable excuse – a 'reasonable excuse' being defined by HMRC as 'something that stopped you meeting a tax obligation that you took reasonable care to meet'.

HMRC suggests that bereavement of a close relative or a serious illness may be a reasonable excuse, but the appeal would certainly be rejected if you relied on someone else to do your return and they didn't, or you made a mistake on your return.

Of the last 50 appeals to the tax tribunal, only 14% succeeded in the taxpayer's favour, 70% in HMRC's favour and the remainder were split outcomes; meaning that although a penalty was still due, it was reduced.

To give you an example, In July 2018 a decision was made with regards to an appeal made by an individual, Dennis Madden, against income tax and penalty assessments in relation to 11 years from 2003-2004 to 2013-2014. These assessments were raised following HMRC's investigation into Mr Madden's tax affairs, which found that he had failed to pay various taxes on time. HMRC stated that the sum in dispute over the 11 years was £244,982.70 – a combination of underpaid tax and the corresponding penalties.

Before the tribunal, Mr Madden had also signed an outline of disclosure of failure to submit returns of income, failure to submit and operate PAYE and failure to submit rental returns. However, he had not included any admission of VAT fraud in the disclosure, which HMRC subsequently found to be the case.

Mr Madden supplied a large volume of evidence to HMRC for this trial only two weeks before the trial began, leaving no time for them to be reviewed. He had not requested a later hearing to accommodate the late filing of records, and therefore the tribunal proceeded based on evidence collected previously. Mr Madden did not attend the tribunal and some of the meetings before it, which had an impact on the level of penalties.

The absence of credible accounting records did not help Mr Madden's case. He disputed HMRC's methodology but did not provide alternative methodology with integrity and credibility, leaving inadequate documentary proof.

Decision: appeal dismissed.

In conclusion, without a reasonable excuse there is little chance that the tribunal will accept an appeal against late tax payments and penalties. If you are struggling to meet your tax obligations on time, get in touch so that your accountant can get you back on track.

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LIMITED COMPANY SUBMISSION CHECKLIST

What?	To whom?	When?
Annual accounts	Companies House and HMRC	*9 months after your company's financial year end*
Company tax return	HMRC	*12 months after your accounting period for corporation tax ends*
Pay corporation tax to HMRC	HMRC	*9 months and 1 day after your accounting period for corporation tax ends*
Confirmation Statement CS01	Companies House	*At least once every 12 months*
Self-assessment for directors if required	HMRC	*Paper 31 October 2018, online 31 January 2019 for 17/18 tax year*

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