DNS Accounting Group

This issue includes updates and news on...

Tax Tips and questions

TAX TIPS & *News*

Newsletter *March 2020*

WELCOME

Welcome to our March's edition of Tax Tips & News newsletter.

The year 2020 has already created history, with UK moving into a new era by departing from the EU, ending a relationship of 47 years, bringing in new challenges for some and hope for the others.

The new Chancellor to the ex-chequer Rishi Sunak, will present the budget on 11th March 2020. It will be interesting to see what the budget will hold, as the government has already promised increase in spending, which may not be possible without increasing taxes, causing a dilemma, as the Conservative's manifesto promised no increase in taxes. Unlimited possibilities which includes scrapping Entrepreneur's relief, IR35 tweaks or no tweaks, will IR35 be delayed or what will soft landing actually means so all we can do is wait and hope for best.

Through this newsletter, I also take the opportunity to inform readers that DNS Group is proud to be accredited by Freelancer and Contractor Services Association (FCSA), for both Umbrella and Accounting services.

This issue includes updates and news on...

- Budget Day – What could change?
- HMRC Notices - Disclose Offshore Income and Gains
- Time to Pay Arrangement Simplified

Tax Tips and questions

- Maximise on Mileage Expenses by Claiming VAT
- Trivial Benefits – The bill is on the house
- How SEIS and EIS can Boost Your Tax Savings
- Claiming cost of Eye Tests and Glasses through Business

We urge you to refer to our section on Key Dates and Deadlines for March-2020, to keep yourself abreast with filing deadlines for your business.
Finally, the financial year 2019/20, comes to an end on the 5th of April 2020, so it's important you check you have made use of all your allowances like pensions, ISA, marriage allowance etc. You can book your tax planning meeting by contacting your account manager or download year-end tax planning tips guide.

Best Wishes,

Sumit Agarwal *ACMA, ACA (India)*
Founder & Managing Director

Budget Day – What could change?

The Conservatives have already committed to a lot of spending and for the government to borrow money would mean breaking the rules. This means we could see a rise in taxes and new the Chancellor is already said to be considering tax rises. Never enough taxes for government. They collect one of the the highest amount of taxes as a GDP% and yet this is not enough. To me this is utter bureaucracy which needs fixing.

So what could change?

Pensions: The government is considering changing the pension tax relief for higher rate earners by cutting tax relief on pension contribution to 20% instead of the 40% available to the higher rate tax payers. There is tremendous pressure on the government to not to change tax relief on Pensions, but this could bring in additional £10 billion a year, so it will be interesting to see if the government will make any changes.

Inheritance Tax (IHT): The UK has one of the most complicated IHT systems and there have been growing calls from industry experts to simplify the tax system. In a report published by Office of Tax Simplification (OTS), they made 11 recommendations to make the structure more understandable for taxpayers . The IHT receipts have hit a record high of over £5 billion and reforming the system should be a priority in the upcoming budget.

Income Tax and National Insurance: The conservatives have promised in their manifesto that they will not be increasing the income tax and the personal allowance has already been capped at £12,500.

Major change is expected on National Insurance contributions as the threshold is expected to be increased to £9,500, as previously announced.

Capital Gains Tax (CGT): The Government's election manifesto included a commitment to review and reform Entrepreneur's Relief. It will be harsh if the government completely abolishes it, but we expect some major changes to the scheme may be a reduction in the lifetime allowance of £10 million or increase in the number of years for which the business is run (currently 2 years).

Stamp Duty and Land Tax (SDLT): PM Johnson pledged to remove the SDLT on sale of all houses of £500,000 or less and moving the duty from the purchaser to seller.

A 1% increase for non-resident purchasing residential properties could be implemented from April-2020.

Corporation Tax: It's been already confirmed that the 2% reduction is not going ahead.

Off-payroll Reforms: The government has been urged to postpone the off-payroll reforms but it seems highly unlikely that they will be postponed. The comments from the new Chancellor who promised a 'soft landing' is completely contradictory to what HMRC spokespersons have said where they plan to implement the reforms full-fledged.

VAT: Although the manifesto promises no change in VAT, there have been growing rumours that there may be changes made to the current VAT system, especially when UK has left EU, as it gives the government an opportunity to review the current system and simplify it further.

In addition to the above, we could see a rise in fuel duty, a new mansion tax on expensive properties, increase in council tax and major tax breaks for first time home buyers.

HMRC urges UK taxpayers to reveal their offshore assets

Since March 2017, HMRC has been issuing notices to thousands of taxpayers who have undisclosed offshore income and gains with requests to bring their tax affairs in order. For this purpose, they have provided a new Worldwide Disclosure Facility with the aim to encourage taxpayers to put their tax affairs right.

HMRC had warned earlier that taxpayers could face penalties of up to 200% of the tax liability and in more serious cases an additional penalty of 10% on the value of the asset, if they are unable to declare their offshore income and gains before new 'Requirement to Correct (RTC)' legislation comes into force.

The new legislation i.e. RTC required UK taxpayers to inform HMRC by on or before 30th September 2018 about any offshore affairs pertaining to UK income tax, capital gains tax, or inheritance tax. The most common scenario in which offshore disclosures requires like in relation to foreign property, investment income and moving money into the UK from abroad.

Taxpayers can correct their tax affairs by:

- Using digital disclosure service which is provided by HMRC as apart of Worldwide Disclosure Facility.
- Telling an officer of HMRC if any enquiry is opened.
- Or any other method agreed with HMRC.

For correcting affairs, you have to notify HMRC of your intention to make a disclosure, they will provide you 90 days to make the full disclosure and pay any tax owed.

If you have received the correspondence for the same you are not sure whether or not the Worldwide Disclosure Facility applies to you, you can contact HMRC on the Helpline on 0300 322 7012 or you can reach out to us.

For more details please refer our blog undisclosed income from offshore

Time to Pay Tax Arrangement simplified

If you are facing temporary cash flow problems and are unable to meet your tax liabilities, you have option to pay HMRC over a period of time using time to pay arrangements. It is implemented to help businesses suffering temporary cash flow issue.

TTP arrangements are grounded on an individual's / businesses precise financial situations and there is no standard time to pay arrangement. HMRC will assess what the taxpayer can afford to pay and on the basis of that, they will allow you a time to pay.

his facility can save you thousands of pounds in penalty charges but you will still need to bear the interest portion. Our advice is to always be proactive with HMRC – don't wait till they will contact you because your tax payment was late.

IN the past, if taxpayers were having difficulty in paying a tax bill, they needed to contact HMRC directly to arrange a TTP. HMRC has now modernised the system and it is now possible to set up a time to pay arrangement, subject to electronic approval, solely online without contacting HMRC. More guidance can be found here.

If you think a TTP arrangement is the right choice for your business, you should consider applying for a HMRC Time to Pay arrangement. To help you achieve a successful outcome with HMRC please contact us to help you.

VAT on mileage expenses

If you use your own car for business purposes then you can usually claim mileage expenses or mileage allowance payments (e.g. 45 pence per mile). Your business can then also claim VAT on the fuel portion of the mileage expense subject to the business being VAT registered and not on the flat-rate scheme.

Reclaiming VAT

You will also only be able to claim VAT for the fuel portion of the mileage claim. For calculation of fuel portion of a business trip, you can use a simple method by using HMRC published Advisory Fuel Rates. The rate will vary on the type of fuel (petrol, diesel or LPG) and engine size for your car, van or motorbike.

How to calculate VAT on mileage?

It would be calculated by using below formula:

VAT on mileage = (Advisory fuel rate x business miles claimed)/6

Let's consider an example - If you run your own car (1.6 litre petrol engine) for 1,600 miles for business purpose in February-2020, then you can claim **VAT on fuel of £37.33**. This is calculated as follows:

Advisory fuel rate for a petrol car with 1600 cc engine = 14 pence per mile.

Hence, VAT on Mileage = (14p x 1600 miles)/6 = £224/6 = £37.33

VAT on mileage = £37.33

Your business will be treated as having made Vatable purchases of fuel of £224 (inclusive of VAT) and your VAT bill is reduced by £37.33, as it will count towards input VAT.

Documents to support claiming VAT on mileage

In order to support the calculation of the VAT recovery on mileage, the below data is usually required:

- Fuel type of the vehicle used.
- Cylinder capacity of the engine.
- Origin of the journey undertaken and the destination.
- Purpose of the trip.
- Mileage travelled for business.
- VAT amount on the fuel receipt related to the claim.

The dates specified on the fuel receipts must be the date before the end date of the year in which you are going to claim. In the event of a VAT inspection/audit, HMRC can trash the claim if the VAT receipts are not available with you and can levy penalties for incorrect information provided on the returns. Read more.

Trivial benefits – The bill is on the house

There will be several occasions when you may wish to reward your employee' work by providing small gifts to employees, giving a staff function or even pleasure yourself as the director and your family.

It can be provided in any form but generally, they are symbolised by gestures such as wine bottles, chocolates, beer for the office, or team lunches. Like small sweeteners every day that keep the morale of the company up.

Earlier, trivial benefits included the provision of tea and coffee while at work and small seasonal gifts but after 6 April 2016, the rules have changed i.e. employers can give now trivial benefits such as small gifts and lunch party and entertainment without having to include in P11D form and in PAYE settlement agreements .

The following conditions must follow in order to provide tax-free trivial benefits. The benefit must not be:

- above £50 (would apply to each time you give a trivial benefit).
- a cash payment (gift vouchers can be provided subject to it can't be used/exchanged as cash).
- a reward for performance or good work.
- an ongoing or recurring cost (such as a membership).
- in the terms of their employment contract.

Tips – It's worth to note that not to spend more than one penny above of £50, otherwise the full value of the benefit will be taxable.

Trivial benefits for directors

In most cases, an employee can receive multiple trivial benefits throughout the year, as long as each one does not exceed £50. However, where the employer is a close company, the exemption is capped at a total cost of £300 in the tax year where the benefit is provided to an individual who is a director or other office holder of the company (or a member of their family or household). Members of the office holder's family or household who are employees of the same close company are each subject to their own annual cap of £300.

Point to note- *You do actually need to spend the amount and on the basis of receipts you can make a claim, so you can't just claim the full £300 or £50 at the end of the year.*

Examples of a trivial benefit include: drinks on a work night out, pizza in the office on a Friday, birthday present on employee's birthdays.

Tips : These trivial benefits are in addition to the annual staff entertaining allowance of up to £150 per annum, per attendee and therefore will help increase morale, whilst reducing your corporation tax liability.

More details can be found here.: https://www.dnsassociates.co.uk/blog/trivial-benefit-for-small-businesses

How SEIS and EIS can boost your tax savings

As the financial year 5th April 2020 is coming to an end, we briefly look at the benefits of investing in Enterprise Investment Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS). The two schemes are UK government initiatives to encourage innovation and investment in small-businesses, by providing private investors a significant tax incentive and are intended to boost the equity investment in unlisted trading companies in the UK. For more year-end tax planning tips – click here.

SEIS offers tax generous reliefs to investors including:

- 50% income tax relief on the amount of investment of up to £100,000 per tax year.
- Capital gains tax (CGT) exemption on disposals of SEIS shares if the investor holds these shares at least for three years or more.
- Reinvestment relief of 50% or £50,000 from capital gains if you sell any asset and use all or part of the gain to invest in shares that qualify for SEIS.
- Loss relief if the value of the investment declines instead going upwards.
- Inheritance tax relief on the value of the shares if the investor holds these shares at least for two years.
- If shares are sold at a loss, the investor may be able to offset the loss against their other capital gains.

EIS tax benefits for investors include:

- 30% income tax relief on the amount of investment of up to £1m per tax year. From 2018/19 up to £2 million if at least £1 million of that is invested in knowledge-intensive companies.
- CGT exemption on the disposal of EIS shares if held for the qualifying period and on which Income Tax relief was given and not withdrawn.
- If EIS shares are disposed at a loss on which Income Tax relief has been taken, loss can be offset against income for that year and the previous year and it would be beneficial instead of being offset against capital gains.
- Inheritance tax relief on the value of the shares if the investor holds these shares at least for two years.
- Capital Gains Tax can be deferred if you use your gains from the sale of any asset to make any amount of investment in a company that qualifies for EIS.

Example of how SEIS works:

Ricky is a higher rate taxpayer. In April 2016-17, Ricky has a capital gain of £80,000 from selling a property. He invested the whole gain into a new SEIS qualifying company. In 2020/21 he disposes of his SEIS shares for £200,000, generating a profit of £120,000.

Taxation benefits in 2016-17:

Income tax relief - £40,000 (£80,000 x 50%)

CGT reinvestment relief - £11,200 (50% x £80,000 x 28%)

Tax Benefits in 2020-21:

Provided that all the qualifying conditions have been met, his CGT of £24,000 (£120,000 x 20%) will be fully exempt.

Read more to find out how EIS can reduce your taxes.

Claiming Costs of Eye Test and Glasses

As I spend most of my time in front of a computer screen, can I claim costs of eye test and new glasses as a business expense?

Under Health & Safety legislation at Work regulations, eye tests for directors and employees can be paid for by the company. Therefore, in most of the cases, if you are working on a screen or monitor in performing your business work, then you will be eligible to claim the cost of a regular eye test as an allowable business expense.

Claiming for glasses and contact lenses

The golden rule for expense is - it is only allowed if it is incurred wholly, exclusively and necessarily in the performance of your business duties.

Normally, if the company pays for the glasses, you will wear your glasses or contacts outside of the work environment, and hence they will be considered dual purpose and the cost will be disallowed as it is not wholly and exclusively a business expense. Though, if a prescription is required for glasses that are wholly and exclusively used for business purposes, and you can demonstrate that you don't use them outside of work, it could become an allowable business expense.

Things to be considered for tax relief on eye tests and glasses

In order to claim tax relief on eye tests and glasses you need to adhere below conditions:-

- It should be required under the Health and Safety at Work regulations.
- It's made available generally to all those employees in circumstances where compliance with the regulations is necessary.

Few other things you could do to obtain the best possible outcome:

- Arrange for your company to pay the optician directly. Instead, it can provide you with a voucher to exchange in return for check-ups.
- If you pay for this cost directly, then your company will need to demonstrate that it was its liability and not yours. In practice this can be achieved by your company providing written authority for you to be tested and an undertaking that it will reimburse expenses on receipt. Practically, this would be more applicable where you have employees, rather than just one or two directors.

Note: If the payment is your own expense (or your employee's liability), any sums reimbursed should be treated as earnings. It will be grossed up and processed through your company's payroll and subject Class 1A NICs.

In summary, the company can only reimburse the cost of the eye test and in special circumstances for glasses– any other payment will incur a pecuniary liability or a BIK on the total cost.

Key Dates and Deadlines for March

1st March 2020
- New Advisory fuel rates come into force.
- Corporation tax payment due for year end 31 May 2019, for those companies not liable to pay their liability by instalments.

7th March 2020
- Due date for January VAT returns unless exempted.

14th March 2020
- EC sales list Deadline for paper monthly or quarterly return filing.

19th March 2020
- Monthly postal PAYE/class 1 NICs/student loan payment.
- CIS return.

21st March 2020
- Intrastat (Due date for payment of supplementary declarations for February 2020).
- EC sales list (Deadline for online monthly or quarterly return filing).

22nd March 2020
- Monthly electronic PAYE/class 1 NICs/student loan payment.

31st March 2020
- Corporation tax return (Filing deadline for corporation tax return self-assessment form CT600 for period ended 31 March 2019 to be submitted to HMRC).
- Company accounts filing deadline for the period ending 30th June 2019.
- CT61 (End of CT61 quarterly period).

Awards & Accreditations

BRITISH ACCOUNTANCY AWARDS 2017 & 2018 WINNER

Independent Firm of the Year South-East, England

Get in Touch

DNS ACCOUNTANTS

03300 886 686

info@dnsaccountants.co.uk

www.dnsaccountants.co.uk

DNS House, 382 Kenton Road, Harrow, Middlesex, HA3 8DP