DNS Accounting Group

This issue includes updates and news on...

- IR35 reforms in the private sector are given the go-ahead for April 2021.
- Making Tax Digital (MTD) extension announced.
- Protecting your company from corporate identity fraud.
- Key Announcements of the Summer Budget.

Tax Tips and questions

- As an SME, can I claim R&D tax relief as well as benefit from one of the Covid-19 schemes?
- EMI: Rewarding employees tax-efficiently.
- Can I reclaim the VAT on expenses incurred before I incorporated the company?
- Can landlords claim travel expenses to and from their rental property?

TAX TIPS & News

Newsletter August 2020

Welcome to August's edition of Tax Tips & News bulletin.

Early signs of success in the development of a coronavirus vaccine and the easing of restrictions mean that without a doubt August will be much better than the previous months since March and the past month of achingly slow recovery. August is the month dedicated to helping retail recover and also to kick-start the hospitality industry, with the 'Eat Out to Help Out' scheme providing a 50% discount on the cost of dining out, which you could enjoy with friends, colleagues, or your family.

From August 2020 employee's NI will need to be paid by employers, so my biggest concern is that without the contribution from government businesses with low reserves or slim margins may struggle. The chancellor continues to come up non-stop with creative ideas to push the economy, but in the end it's winning back public confidence that will really get it moving again. The fundamentals of the UK economy are being challenged big time, with the gaps and loopholes that are currently wide open needing to be fixed straight away. The next six months will be very challenging, but rest assured that we at DNS will remain vigilant and alert, and articulate as clearly as possible all the ways we can help all our clients navigate this really tough period.

There is an opportunity to bring back your employees who are currently furloughed on a part-time basis. As this means that businesses won't have to bring everyone back full-time, the burden will be eased a bit and hopefully this will help out the recovery. There is a lot of support overall from UK plc, but none of this is coming for free. The support measures from the treasury in itself will bring an additional burden to the UK economy in the future, the responsibility for which will fall on all working-age adults. The debates are already heating up as to how the government will balance the books; I for one will be keen to watch the debates open out, but at this stage focus is still on breathing life back into our stale economy. The economy needs a push; it needs the oxygen of confidence, plus some brave businesses to put down the foundations for the recovery by bringing back confidence. Confidence! I have used the word enough, but this is the key missing element for our future. I am quite sure though, if the vaccine trials go well, and if it gets approval, the economy will very soon get back on track – albeit that the run-up to full-throttle take-off could be as long as six months.

So make sure you 'Eat Out to Help Out' a lot! Help to generate that energy our economy, and especially our retail and hospitality industries need.

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We have some interesting webinars lined up, so please take a look here and make sure you register for any of the events that interest you. We will continue bringing you more informative topics in the future based on feedback and demand.

Please take note of the **Key Dates and Deadlines for August 2020** to stay up to date with the filing deadlines for your business.

Kind regards

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

IR35 reforms in the private sector are given the go-ahead for April 2021

The April 2021 roll-out of the new tax rules on off-payroll working in the private sector is confirmed to go ahead in 2022 as planned, following defeat of the amendment to the Finance Bill brought by Conservative MP David Davis in the Commons that proposed delaying the reforms until 2023/24.

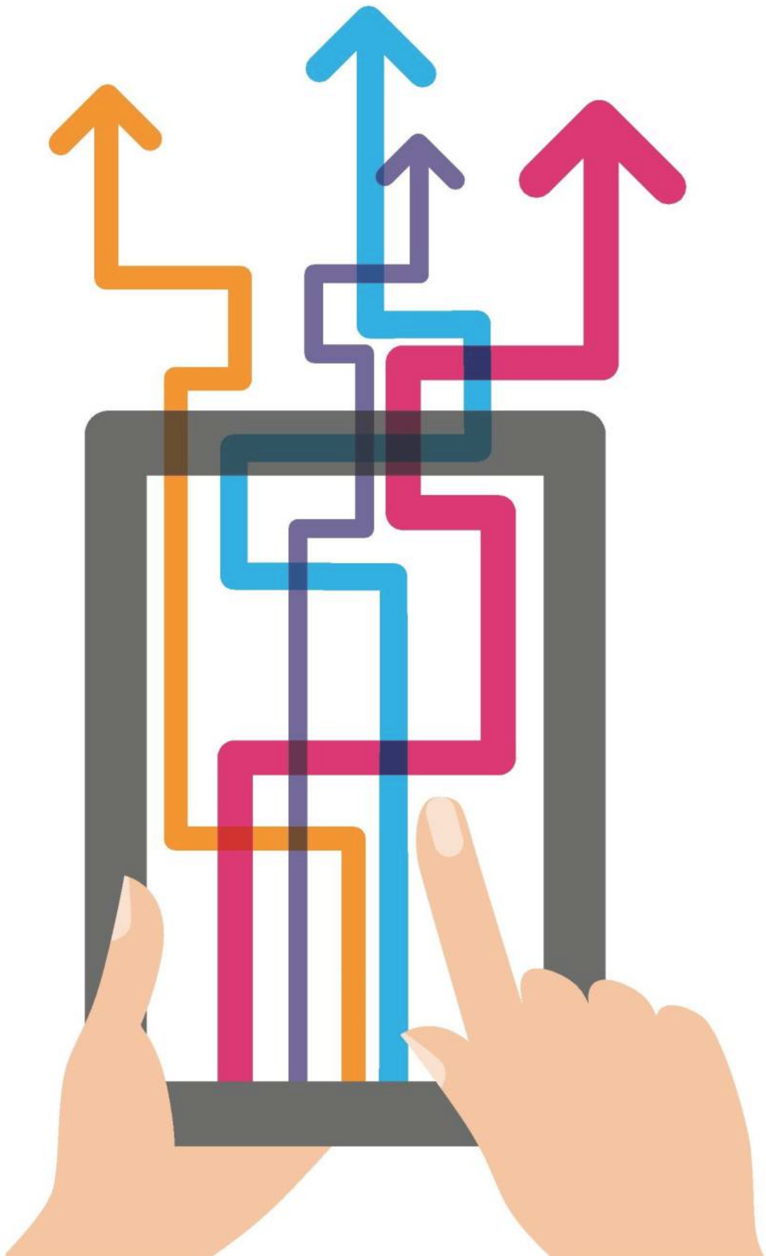
Originally planned for implementation from April 2020, the reforms were delayed due to Covid-19 until 2021 anyway, to leave businesses free to deal with the pandemic.

Off-payroll legislation has been highly controversial. It shifts the responsibility of determining the employment status of the contractor, from the contractor's personal service company (PSC) to the end client employing their services, which has been causing legitimate concerns that many clients may simply adopt a blanket approach of no longer working with contractors or deeming them non-compliant with off-payroll rules..

Industry experts have warned that the reforms will have a severe impact on the gig economy, and that we are heading towards zero employment rights whereby workers will be treated as employees for tax purposes only.

Although off-payroll may not be a priority for many businesses at present, especially considering that many are still recovering from the impact of the pandemic, businesses and agencies should definitely find the time to start planning for the reforms and making sure that they have adequate systems in place to hire freelancers compliantly.

You can read the full story here.



Making Tax Digital (MTD) extension announced

On 21st July 2020 the Treasury released details of an ambitious 10-year plan to modernise the tax administration system. The document focuses on three key strategies: extending HMRC's Making Tax Digital (MTD) online reporting system; exploring appropriate timing and frequency of the payment of different taxes; and reforms to the tax administration framework.

As part of the digitisation strategy, the MTD programme, which had been halted because of Brexit and the coronavirus pandemic, will now be extended to all VAT-registered businesses from April 2022. Presently, MTD is compulsory for VAT-registered businesses that are required to be VAT-registered because they have a taxable turnover of over £85,000.

Looking ahead to April 2023, taxpayers who file self-assessment tax returns for their businesses, or with property income of more than £10,000 a year, will be brought into the programme. These taxpayers will be required to file quarterly and maintain digital records. It is estimated that over 4 million businesses and landlords will fall within the scope of MTD once it is introduced.

Then, come autumn, HMRC intends publishing a consultation document about bringing Corporation Tax into MTD.

Protecting your company from corporate identity fraud

Your business (and personal) identity is a most valuable asset. With the increasing digitalisation of financial services, ID theft has become a common problem and a serious threat. Information leaked through data breaches, phishing emails, and even documents thrown away and then discovered by individuals rifling through your bins, can all lead to the collation of enough data on a person to steal their identity.

Using your stolen data, fraudsters can:

- Open bank accounts, take out credit cards and apply for state benefits in your name;
- Hijack your business and make fraudulent purchases in your company's name;
- Pretend to be you or one of your employees and trick your clients into diverting payments to a different bank account;
- Pretend to be you to target unsuspecting members of the public and attempt to steal their data.

Part of the problem is the availability of personally identifiable information (PII) from Companies House (CH). CH deals with up to a 100 cases of corporate identity theft every month. The UK government has made changes in recent years in response to this increase in cybercrime.

CH now allows you to protect your identity, maintain privacy, follow activities and restrict certain actions.

DNS can help you secure your identity and safeguard your business against potential fraud threats. Please contact your account manager to find out more.

Key announcements of the Summer Budget

Chancellor Rishi Sunak's Summer Budget was designed to help the economy recover from the impact of the pandemic. Pledging to 'protect, support and create jobs' to get the economy back on track, the key announcements were as follows:

Stamp Duty Land Tax (SDLT) relief: The threshold for SDLT relief has been increased from £125,000 to £500,000. The increase in the threshold is temporary and will run until 31st March 2021.

Coronavirus job retention bonus: To reward employers who bring back employees from furlough and employ them continuously through to 31st January 2021, the government has announced a bonus of £1,000 per employee.

Reduced VAT rate: The hospitality and leisure sectors will pay a reduced VAT rate of 5% from 15th July 2020 through to 12th January 2021.

Discounted food: Every diner will receive a 50% discount, capped at £10 per head, under the 'Eat Out to Help Out' scheme. The offer is available Monday–Wednesday throughout August at participating businesses.

Kickstart scheme: The government will pay the first six months' wages plus an amount for overheads, for employers who create new jobs for young people age 16–24.

Trainees/apprenticeships: For businesses that take on new trainees the government will pay £1,000 per trainee. Additionally, employers who create new apprenticeships will receive a grant of £2,000 per apprentice. The government will also pay £1,500 for every new apprentice hired who is above the age of 25.

Green jobs: From September onwards, homeowners and landlords can apply for vouchers to help make their property more energy-efficient. The vouchers will cover up to two-thirds of the cost up to a maximum of £5,000, and a maximum of £10,000 for low-income households.

For more details visit [here.]

As an SME, can I claim R&D tax relief as well as benefit from one of the Covid-19 schemes?

Definitely, yes, you are eligible to claim for R&D tax relief even if you have applied for or are already benefitting from one of the Covid-19 schemes. HMRC has recently confirmed in its *State aid: Guidance on the Covid-19 Temporary Framework for the UK, in paragraph 11,* that none of the COVID-19 aided measures will be counted as part of State aid. The reason for this is because it will be available to all kinds of business and won't be limited to a specific business sector.

Normally in cases where a company is receiving notifiable State aid for an R&D project, it cannot claim any other State aid. This is done in order to restrict the company from receiving more State aid than permitted under the State aid cumulation rules. However, a company in receipt of a notified State aid can still claim generous company tax relief or research and development expenditure credit (RDEC).

Another of the government's support measures is the coronavirus job retention scheme (CJRS). This allows companies to furlough employees with the government paying 80% of the salary of each worker (capped at £2,500 p.m.). Confirmation has been given that the government's contribution will decrease by 10% each month from 1st September until the scheme closes on 31st October 2020.

Based on the government's advice on the scheme, if an employee is furloughed, she or he cannot undertake any work for the business during the furlough period. This includes providing services or generating revenue. However, from July-2020, you can now bring furloughed staff back part-time.

Another point on this is that an employee who is furloughed will not be carrying out any work and, therefore, will not be directly and actively engaged in R&D activities. But if a grant or subsidy is received towards staffing costs under the CJRS, while normally being considered a qualifying expenditure for R&D other than by way of notified State aid, the expenditure is subsidised to an extent that cannot be considered under R&D.

EMI: Rewarding employees tax-efficiently

Enterprise Management Incentive (EMI) share options are specifically designed for trading companies that have growth potential. They provide individuals with significant tax benefits and are much more flexible than other tax-favoured share arrangements. EMI gives the company the right to grant options to named employees to buy shares at a fixed price at a later date.

The tax benefits are very generous: no income tax or NI contributions are due when options are granted, and none are due on exercising the options, unless the exercise price was lower than actual market value (AMV) on the date the options were granted. On disposal of the shares, the increase in value from the AMV at the date of grant will usually be liable to capital gains tax (CGT) and normally qualify for business asset disposal relief (BADR, known as Entrepreneurs' Relief, before 6th April 2020); and provided certain conditions are met, it will be taxed at 10% instead of 20% (or 10% for the unused basic-rate income tax band).

The company will benefit from a deduction in corporation tax in the accounting period in which the employee gains beneficial ownership of the shares equal to the AMV of the shares, less any amount paid/borne for the shares by the employee.

Comparison of EMI versus non-tax-advantaged option schemes

STAGES	EMI scheme	Unapproved Share Scheme
GRANT Grant of share options at the market value of £10k	3% share options	3% share options
EXERCISE Share options exercised at market value on the date of the grant of £10k; AMV: £100k	No tax	£40,500 income tax paid out of own pocket
SALE Company sold and share options worth £150k	£14,000 capital gains tax	£14,000 capital gains tax
OUTCOME What is left after tax?	£136,000 cash £14,000 tax	£93,250 cash £50,500 tax

Clearly, an employee will be much better off under an EMI scheme. Not only do they save up to £36,000 in tax (see the example above), but they also don't have to pay anything up to £40,500 in tax out of their own pocket when they exercise their options. In addition, using the example above, the company would be able to deduct £90,000 from its taxable income.

For more details please refer to our blog

Can I reclaim the VAT on expenses incurred before I incorporated the company?

If your business is a corporate body (a company, charity or association), the general rules do not allow you to reclaim any VAT on goods or services obtained before the body was incorporated. However, VAT can be recovered on goods obtained for the body and services obtained for its benefit, subject to certain conditions being met. If the conditions are met you can then treat the reclaim as input tax.

The conditions are laid down in VAT notice 700 for recovery of input VAT. The rules for the case where goods and services were bought prior to incorporation, for the body you incorporated rather than any pre-existing entity, are as follows:

- The goods were supplied not more than four years before the incorporation and you still hold the goods or they have been used to make other goods which you still hold;
- The services were supplied not more than six months before the incorporation and the services were not related to goods which you disposed of before you were registered (such as repairs to a machine which was sold before registration);
- The goods and services received for the purposes of the body should relate to its taxable activities;
- The VAT in question is not in respect of a capital goods scheme (CGS) item;
- Goods or services were bought or imported by a person who became a member, officer or employee of the body;
- The person was reimbursed for the full cost;
- The person was not a taxable person at the time of the supply or importation.

Supporting notes:

- The crucial point is that the goods or services must not have been obtained for a previously existing entity.
- You can also recover the VAT on an asset purchased before incorporation provided the above conditions are met. In this case it will be treated in the same way as goods; that is, the same conditions will apply.
- If you want to claim pre-incorporation VAT on goods and services, you must have a valid VAT invoice or receipt for each item.

Should you need any assistance with the calculation of pre-incorporation VAT for the completion of the online VAT form, our VAT team will be happy to help, you can email your account manager or call us direct on 033008 86686.

Can landlords claim travel expenses to and from their rental property?

If a landlord is self-managing his or her rental property, the expense incurred for travel to and from the property can become quite costly. Deductions for travel expenses depend mainly on the 'wholly and exclusively' rule; that is, the journey must have been undertaken 'wholly and exclusively' for the purposes of the property business in order to be deductible as a business expense. Only where a definite part or proportion satisfies this test can a claim be made.

Duality of purpose

Where a landlord's trip to the property had a duality of purpose, being partly for private and partly for business reasons, the cost of the trip from the landlord's home to the rental property will not be allowable, as it was not 'wholly and exclusively' for the purposes of the business. However, a deduction can be claimed for a journey where any personal benefit is incidental (e.g. a journey made to the rental property where the landlord stopped off on the way to pick up groceries).

Supporting note: The treatment of travel expenses for landlords is similar to that for the trades or professions. The crucial test is whether the expense was incurred 'wholly and exclusively' for the purposes of the rental business.

Deductibility of expense

1. Capital expenditure

Capital expenditure on the means of travel (usually a car or van) isn't deductible in computing rental business profits; nor is it a depreciation charge. But plant and machinery capital allowances may be available. These allowances are deducted in computing the business profit or loss. The 'wholly and exclusively' rule applies to these allowances too.

2. Revenue expenses

There are two methods of calculation for the running expenses incurred:

Actual basis: means that actual expenses incurred (fuel, repairs, insurance, etc.) are totalled and apportioned between the business and private percentage using detailed records.

Flat method: means a fixed rate per mile as per HMRC's authorised mileage rates. Currently, the first 10,000 business miles are claimed at 45p, then 25p thereafter. Once this method of claim is used, the same method must continue for as long as the car is owned and used by the business.

Supporting note: If the business trip requires an overnight stay, hotel costs and meals are generally allowable.

3. Letting agent managed

Some landlords hire an agent to fully manage the property. This can include arranging repairs and attending inspection visits, etc. Where an agent carries out all (or virtually all) of the duties relating to the letting activity, and the business 'base' is deemed to be the agent's office, travel expenses from the landlord's home to the property will be disallowed, but travel costs incurred by the landlord from the agent's office to the property will be permitted.

4. Foreign travel

Where the landlord lets out a foreign property and the purpose of the trip is to both visit the property and enjoy the trip personally, the only expense allowable is that which was incurred solely for the purpose of the rental business.

If the sole purpose of the trip is to attend to the rental business, then the expense will usually be allowable in full, notwithstanding any incidental private benefit. Note that HMRC have been known to check airline tickets to see whether the landlord was accompanied by their spouse/partner and/or family on such an overseas trip.

Key Dates and Deadlines for August 2020

1st August 2020
- Due date for payment of Corporation Tax for period ended 31st October 2019.

2nd August 2020
- Deadline for submitting P46 (car) for the quarter ending 5th July 2020.

7th August 2020
- Deadline for VAT returns and payments for accounting quarter ending 30th June 2020.

19th August 2020
- Monthly deadline for postal payments to HMRC of CIS, NICs and PAYE.

21st August 2020
- Intrastat (due date for payment of supplementary declarations for July 2020).
- EC sales list (deadline for online monthly or quarterly return filing).

22nd August 2020
- Deadline for electronic remittance to HMRC of CIS, NICs, including Class 1A, and PAYE.

31st August 2020
- Companies House deadline for filing of accounts for year-end 30th November 2019.
- Corporation Tax Return (CT600) for filing of accounts for year-end 31st August 2019.

Awards & Accreditations

accounting **excellence Finalist** 2020

Investing in People Award & Client Service Award

accountingexcellence
FINALIST
Investing in People Award
2020

accountingexcellence
FINALIST
Client Service Award
2020

British Accountancy Awards
2019 SHORTLISTED

The Contracting Awards2019
FINALIST

TOP 5
accountingexcellence
Investing in People Award
2019

accountingexcellence
SHORTLISTED
2018

British Accountancy Awards
2018 WINNER

PRACTICEexcellence
SHORTLISTED
2017

British Accountancy Awards
2017 WINNER

The British Accountancy AWARDS 2013
WINNER

DNS Accounting Group

DNS Accounting Anywhere	DNS Umbrella	Target Accounting A DNS Company	Limelight Accountancy A DNS Company	cloudcogroup Chartered Management Accountants A DNS Company	Korklin & Company Accounting Anywhere | A DNS Company	1st Accountancy Accounting Anywhere | A DNS Company	Phil Bessant Limited Chartered Management Accountants | DNS Group
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