DNS Accounting Group

TAX TIPS & News

Newsletter *December 2020*

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

Every day starts with some eye-catching headline – news from the Treasury or especially negative news about Covid or Brexit or the economy. I am nervous about what the new news will bring each day. Then, despite the best efforts of everyone I know as we all try to go about life as safely and cautiously as we can, the R-rate seems not to be dropping as expected. Working from home with the kitchen no more than 10 metres away from my home-office arrangement, does not help either: my waistline seems to be growing at a pace faster than the shrinking economy.

For the DNS Group on the other hand, things are super busy and extremely positive. We have new Franchisees lined up to join us and this also means that the DNS Group's national coverage will be even more extensive. We have appointed additional members to our sales team to handle the growing enquiries about the government's different support measures for businesses and the Kickstart scheme. Overall, DNS has recruited more people than we have had to let go. So all is not doom and gloom for our business and our bubble. We hope the same is true for you. We would love to hear your positive news, and any other stories you would like to share to help cheer us up and motivate us all as well.

One thing is certain: The more the Chancellor spends on supporting the economy the greater our borrowing and the greater the burden for future generations. UK taxpayers are going to have to pay back the huge borrowing, so whatever else happens in the future it is a certainty that we are all going to have to be prepared to pay higher taxes. The Chancellor will most likely make changes to the capital gains tax (CGT) rate, to mirror the individual's Income tax rate, and more than likely almost all CGT allowances will be taken away. There is every likelihood that income tax rates will be raised, NI on dividends will be raised, and that many other changes to business and personal taxes, and taxes on gains, are being lined up as I write. This will all directly affect small business owners. And this is why you should be more vigilant than ever to structure your tax affairs efficiently.

I am delighted to report that the Kickstart scheme has generated significant interest. Please, therefore, start planning early: Could your business benefit from having a young person on board under the terms of the scheme; likewise could you safeguard the future employment prospects of a young person? Could you grow your business or safeguard it for the future market by using the scheme? Look closely at the skills or people your business needs and think about whether your business could utilise the benefits of the scheme.

Our newsletter is full of very interesting content this month. My personal favourite is the piece on Furloughed employees and their claims and wages calculation. To anyone claiming furlough this is a must-read piece. Please be aware that the self-assessment tax deadline and other statutory deadlines are fast approaching. You should be getting all your paperwork ready now and be ready to submit your data in good time ready for your Accountant to get going on whatever is necessary.

As always, there is plenty to catch up on. If you have any burning topic you'd like us to cover, please do let us know and we'll do our best to cover it in the next or future newsletters.

Until we meet again or speak next, I wish you all the very best. Stay safe: remember our safety is our own responsibility and no one else's.

All the Best.

This issue includes updates and news on...

- Will capital gains tax rates double next year?
- How will HMRC extract money from you post Covid-19?
- Self-assessment deadline looming
- Legislation: Day 2 announcements – Draft Finance Bill 2021

Tax Tips and questions

- The UK's VAT position after Brexit
- Christmas party allowance: How you could spend this year
- Property expense – Revenue vs Capital?
- Furloughed employees – Calculating wages

Finally, please refer to **the Key Dates and Deadlines for December 2020** to be sure you keep up to date with the filing deadlines for your business.

Kind regards,

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

Will capital gains tax rates double next year?

In a report titled –Capital Gains Tax review first report: Simplifying by design, published on 11 November 2020 by the Office for Tax Simplification (OTS), it has been suggested that an additional £14bn could be raised if the government were to align the capital gains tax (CGT) rates with income tax rates. The report, published by the OTS at the Chancellor's request, reviews CGT to "identify opportunities relating to administrative and technical issues as well as areas where the present rules can distort behaviour or do not meet their policy intent."

The recommendations made by the OTS report include some extreme changes to the CGT rules, such as:

- Increasing the CGT rates to align more closely with personal income tax rates.
- Reducing the level of Annual Exempt Amount (paid on gains above your tax-free allowance).
- Removing the CGT uplift on death, whereby the recipient will be treated as acquiring the asset at the historic base cost; and
- Abolishing or reforming some valuable reliefs, like replacing the Business Asset Disposal Relief (BADR) and removing Investor's Relief.

Were the recommendations to be implemented, CGT rates would increase overnight and disposing of assets could become expensive for taxpayers.

This is not the first time such recommendations have been made, however, and although the government is not bound to accept them, are they nonetheless likely to go ahead with the proposed reforms?

It is no secret that the government was planning to introduce some major tax reforms in the autumn budget that was due to be announced in November, which was cancelled due to the ongoing Covid-19 crisis. Moreover, the expected budget deficit (the difference between tax collected and government spending) this year is expected to exceed the £400bn mark, and the economy is predicted to go into a deeper recession. Considering the shortfall in tax collection and the increasing deficit, the CGT reforms are an inevitability. Therefore, it is a matter of when the reforms will be implemented, which could be as early as March or April 2021.

Should we all be worried?

Yes, probably. Let us take an example: John is retiring; he receives other income below the higher rate tax threshold and has reserves built up in his personal service company of around £100,000. John is planning to use liquidation (Members Voluntary Liquidation) to extract the funds in the summer of 2021 as a capital distribution. He has been advised that after considering liquidation fees of £5,000, he would come out with around £82,000 after CGT at 10% (with his personal allowance and assuming that BADR is still available). So, looking at exactly the same scenario but with the changes recommended by the OTS implemented in April 2021, John would have less. He would come out with approximately £55,000.

In John's situation, there is an easy solution: he could consider undertaking liquidation now before the changes kick-in. However, this will not be the case for everyone, and the circumstances will differ from individual to individual.

In cases where there are other assets, some may decide to expedite the sale of assets before the changes are implemented. But due to the ongoing crisis this may prove more difficult.

Individuals should consider their CGT position beforehand, bearing in mind the recommended changes, and discuss with their advisor/accountant to take protective measures.

How will HMRC extract money from you post Covid-19?

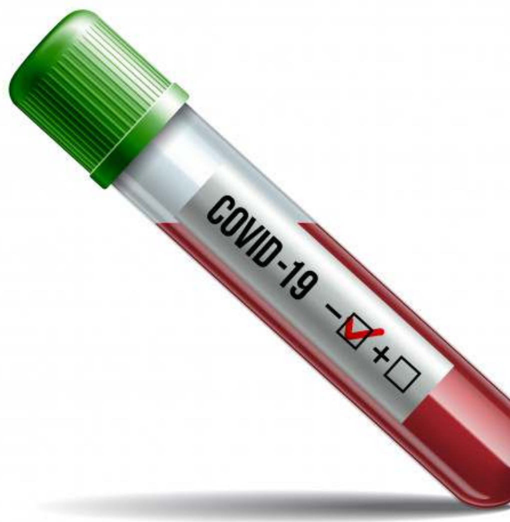
Due to the pandemic, the government has spent close to £200bn to rescue the UK economy. It has provided unprecedented support with measures including the job retention scheme, self-employed income support scheme and bounce-back loans. The support measures have helped many individuals and businesses, but employers and employees in the hospitality and retail sectors in particular have seen an enormous drop in their income due to having to remain closed due to the lockdown. The question now arises: How will the government pay for these costs when the borrowing level is already extremely high?

Increase in taxes

The Conservative government had promised in their manifesto that there would be no increase in taxes. However, no one could have foreseen the devastation of a pandemic in 2020, which has increased government spending by an eye-watering sum and brought about the likelihood that major tax reforms are coming our way. The OTS has already made recommendations to align CGT rates with income tax rates and suggested other major reforms to inheritance tax (IHT). It is a possibility that the reforms will make national insurance (NICs) payable on dividends.

HMRC enquiries and investigations

HMRC paused all enquiries and investigations temporarily as of March 2020, but work has recently resumed. The number of enquiries and investigations raised between March–July 2020 was only 61,000 compared with 128,000 in the same period in 2019. There have been numerous reports in the news about certain businesses and individuals abusing the government's support measures introduced during the pandemic. Understandably, this has dismayed the government, not least because it shows poor planning and management in its duty to protect public money. Therefore, over the coming months, HMRC investigations are set to increase multifold, especially for businesses that claimed through the Job Retention Scheme and other Covid-19 financial support measures.



Nudge Letters

The sending out of HMRC nudge letters is in full swing now prompting certain taxpayers to check their compliance. Most recently, HMRC has issued nudge letters about offshore income, property gains, P11D reporting, ATED and CGT on disposal of shares. A critical fact to remember about these letters is that they are not issued at random, so taxpayers should definitely not ignore them. With the amount of data HMRC has been receiving from sources such as the Common Reporting Standards (CRS), this surveillance and nudge letter activity is only expected to increase to help fund the budget deficit.

HMRC Powers

HMRC have been granted further new powers, including:

HMRC preferential creditor status post-1 December 2020 — In an administration or liquidation, HMRC has moved up the rankings of who gets paid first, jumping ahead of floating charges and unsecured creditors.

Financial Institution Notices (FINs) – To obtain data from third-party financial institutions without needing to gain permission from the First-Tier Tribunal as required at present.

Tax Conditionality – This will be introduced to handle the hidden economy of licenses to trade, whereby businesses will only be able to renew a licence to trade if they demonstrate that they are registered to pay tax.

Make no mistake: HMRC has sufficient resources and powers in their arsenal to increase tax collection with the use of enquiries. Therefore, taxpayers are urged to check their records to make sure they have acted compliantly and address issues where necessary, and thus avoid stress, penalties and interest.

Self-assessment deadline looming

With only 31 days left until the end of the Brexit transition period, and the pandemic still ongoing, self-assessment may not be a priority for many individuals. However, we must remind you that there are only 60 days left to submit self-assessment tax returns, and that leaving it until the eleventh hour could leave you open to having to pay penalties and interest.

Taxpayers who file electronically need to complete their tax return before the deadline of 31 January 2021. For taxpayers submitting paper returns, the deadline of 31 October 2020 has already lapsed and they should make provision to submit immediately.

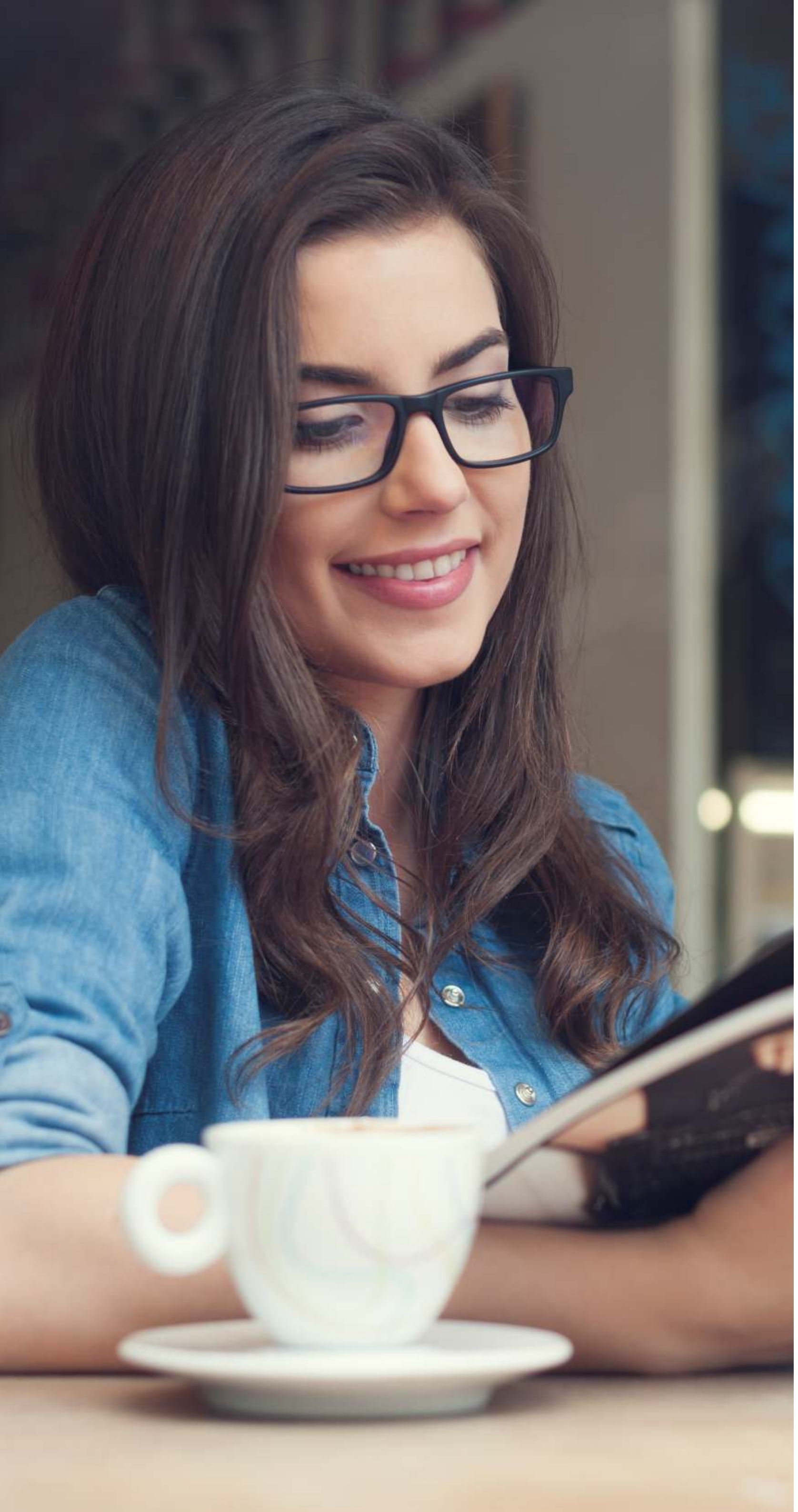
Individuals are required to submit a tax return if they:

- Are self-employed working as a sole trader or partnership with income of more than £1,000.
- Have earned more than £2,500 from rental income.
- Have received, or their partner has received Child Benefit, and either of them had an annual income of more than £50,000.
- Have received more than £2,500 in other untaxed income, for example from tips or commission.
- Have employment income of over £100,000.
- Are an employee claiming expenses of more than £2,500.
- Have earned income from abroad on which UK tax is due.

To check if you need to file a tax return, [click here.]()

Further, for taxpayers planning on submitting a self-assessment tax return for the first time, you will need to register with HMRC for self-assessment and request a Unique Taxpayer Reference Number (UTRN).

Once the self-assessment is completed and filed, and provided the liability is less than £30,000, taxpayers can use HMRC's time-to-pay facility to set up a monthly direct debit and spread the payments across an agreed time period.



Legislation: Day 2 announcements – Draft Finance Bill 2021

The government has published further draft legislation for the Finance Bill 2021. The draft provisions cover critical changes, as set out below.

Annual Investment Allowance: The £1m AIA will be extended until 1 January 2022 rather than reverting to £200,000 at the end of 2020. Businesses looking to make investments in plant and machinery and other capital assets and were worried about the drop in annual allowance, no longer need to complete their transaction before 31 December 2020, as the allowance for 2021 will continue to be £1m.

Off-payroll working rules: The measures will apply from 6 April 2021. Businesses and contractors are urged to begin preparing for the reforms now, as it looks unlikely an extension until next year will be announced.

Furthermore, the definition of an "intermediary" will be narrowed down to bring it back within the intended scope of the policy because, as per the current definition, umbrella companies fall under the off-payroll rules.

R&D tax relief for SMEs: The amount of payable SME R&D tax credit a company can claim in a period will be capped at £20,000 plus 300% of its total liability for PAYE and NICs for the period, with the aim to reduce the impact on genuine businesses. The changes will take effect for accounting periods beginning on or after 1 April 2021. A company's claim will not be capped, however, if it meets the two following criteria:

- its employees are creating, preparing to create, or actively managing intellectual property (IP); and
- provided its expenditure on work subcontracted is less than 15% of its overall R&D expenditure.

The UK's VAT position after Brexit

As of 1 January 2021, the UK Government will introduce a new model for the VAT treatment for goods arriving in Great Britain from outside the UK. This will ensure that EU and non-EU countries are treated in the same way for goods purchasing, and that UK businesses will not be disadvantaged by the competition from VAT-free imports. Other changes will be made to improve how the UK enforces VAT on overseas sellers who sell goods that are already in the UK at the point of sale.

Additionally, from January 2021, the UK will begin collecting VAT at the point of importation, rather than at the point of sale, for goods valued at no more than £135. For imported goods worth £135 or less, UK supply VAT, rather than import VAT, will be due. The new provisions will also abolish the Low-Value Consignment Relief, which releases import VAT on consignments of goods valued at £15 or less.

As of January 2021, therefore, online marketplaces (OMPs) – where they are involved in facilitating the sale – will become liable for collecting and accounting for the VAT. Further, for sales of goods by overseas sellers, where the goods are already with in the UK at the time of sale, HMRC will shift the responsibility for accounting for VAT to the OMP that facilitates the sale instead of the overseas seller.

Where the goods are directly sent and sold to UK consumers from overseas without OMP involvement, the overseas seller will become liable for, and need to register and account for the VAT with HMRC.

For goods over £135 in value, normal VAT and customs rules apply. This means that import VAT will be chargeable, and supply VAT should not be charged at the point of sale.

Business-to-business rule changes

Business-to-business sales not exceeding £135 in value also figure within the new rules. The VAT will be accounted for by the customer, by means of a reverse charge, in cases where the business customer is UK VAT registered and can provide a valid UK VAT registration number to the seller. Not covered by the new rules are consignments of goods containing excise goods, or goods which relate to non-commercial transactions between private individuals, in these two cases the existing rules will continue to apply.

Businesses will be able to use postponed VAT accounting, in relation to goods imported from anywhere in the world, when accounting for import VAT on their VAT return. This assumes that businesses will declare and recover import VAT on an equivalent VAT return, rather than having to pay it upfront and recover it later as is the case with normal VAT-recovery rules.

How can DNS help?

The UK leaves the EU Single Market, Customs Union and the VAT and excise duty area on 31 December 2020. Irrespective of the terms of any agreement negotiated by the UK and EU concerning their new partnership, international businesses in the UK and EU will need to adopt new processes and procedures in order to adapt to new and complex border formalities and controls on exports and imports. Likely delays will almost certainly be accompanied by new costs.

As businesses re-examine and restructure their operations, supply chains and financing arrangements, we have a dedicated team of leading experts around the globe ready to help you understand and anticipate developments in post-Brexit taxation.

For more information on VAT after Brexit, register for our webinar on 9 December 2020.

Working remotely but feeling closer – Christmas Party Allowance

Following the government's recent announcements on stricter COVID-19 restrictions, many employees are now working from home and will probably be doing so in the near future – or at least for the next six months.

CEOs and HR teams have increased their focus on how they can keep employees engaged while they are working remotely for a prolonged period.

A common concern our clients raise with us is around what benefits to provide, and how to create an inclusive social environment while we're all working apart (via Google Meet, Teams or Zoom). About this time of year, we'd typically start planning for Christmas parties – a chance for employees to unwind and celebrate the successes of the year. But what will those parties look like this year?

What can you do for Christmas?

The usual face-to-face get together is probably not possible or advisable, but virtual events can still take place. Remote team games and activities can be a great way for smaller groups to celebrate.

But on top of employers facing the logistical challenges around employee well-being and motivation, there are cost and tax considerations to consider also.

In prior years, employers would look to utilise the annual parties exemption – which, depending on how you define "party", may or may not apply to virtual events.

In order for a workplace party or other social gathering to be exempt, it must meet the following rules:

- Cost £150 or less per head;
- Be held annually, such as a Christmas party;
- Be open to all employees.

The Government and HMRC have, however, introduced some temporary new exemptions and reliefs having adapted their practices in line with the strange times we find ourselves living in. Therefore, for 2020, considering increased home working due to COVID-19 and having considered the scope of section 264 ITEPA 2003 (annual parties exemption), HMRC confirm that the exemption will apply to the costs associated with virtual parties in the same way it would for traditionally held “analogue” parties.

This means that the cost of providing food, entertainment, equipment and other expenses which may be incurred in hosting a virtual event will be exempt, subject to the normal conditions of the exemption being met. It is important to remember that the intention of the exemption is to allow for costs generally incurred for the purposes of the event itself, and that the event, along with any associated provision, must be available to all employees generally.

Property expenses – Revenue vs Capital?

A question often asked of us is this: How do you decide whether the property cost is allowable expenditure, i.e. a revenue expense, or investment in an asset – a capital expense?

If, for example, you incurred expenses for a repair or renewal in a property letting business, it would be considered either as a revenue expense – normally allowable as a deduction and deducted from property income for tax purposes – or as capital expenditure, which is not. The distinction between the two will be obvious in some cases. However, in many cases, the differences between the two are ambiguous.

The general position is that the cost of:

- a repair is generally an allowable expenditure, but
- making a significant improvement or replacing the asset or its major part (the "entirety") will be capital expenditure and not considered allowable as a deduction.
- Replacing a small part will count as a repair to the larger asset, replacing the whole asset or major part is not a repair, and will not be a part of an allowable deduction for tax purposes because it is capital expenditure.

Note: Sometimes the fact is that although the repair might be substantial and comprise extensive financial outlay, it does not prevent it from being revenue in nature, thereby turning it into a capital item. The key factor remains whether the expense is spent in restoring the property to its original state (revenue) or intended to enhance it (capital).

Capital improvement expenditure

Something carried out is defined as capital expenditure when the result is a long-lasting and permanent enhancement to an asset or its outright replacement. Capital expenses are not allowable and cannot be claimed against your rental income, but keeping records of the expenses is a good idea nonetheless, as you might be able to set the expenses against CGT if you sell the property in the future. Common examples include:

- Adding an extra bedroom (or a room or extension that was not there before);
- Upgrading the kitchen units to a higher specification (or altering, improving, or upgrading something that existed already);
- The purchase of furnishings and equipment for the property (e.g. to furnish an unfurnished property for inclusive rental).

In the case of capital expenditure, there is an "all-or-nothing" rule; i.e. if you cover the expense for alterations or improvements to an asset and that cost is way above restoring the asset to its original state, it would normally be treated as capital expenditure and not revenue deduction.

In many cases it will be clear (using the like-for-like test) whether the expenditure relates to a repair or an improvement; however, in some cases, the boundaries can become blurred and we recommend you seek professional guidance from your accountant.

Furloughed employees – Calculating wages

The extended furlough scheme will operate in the same way as the original scheme did during August 2020, that is:

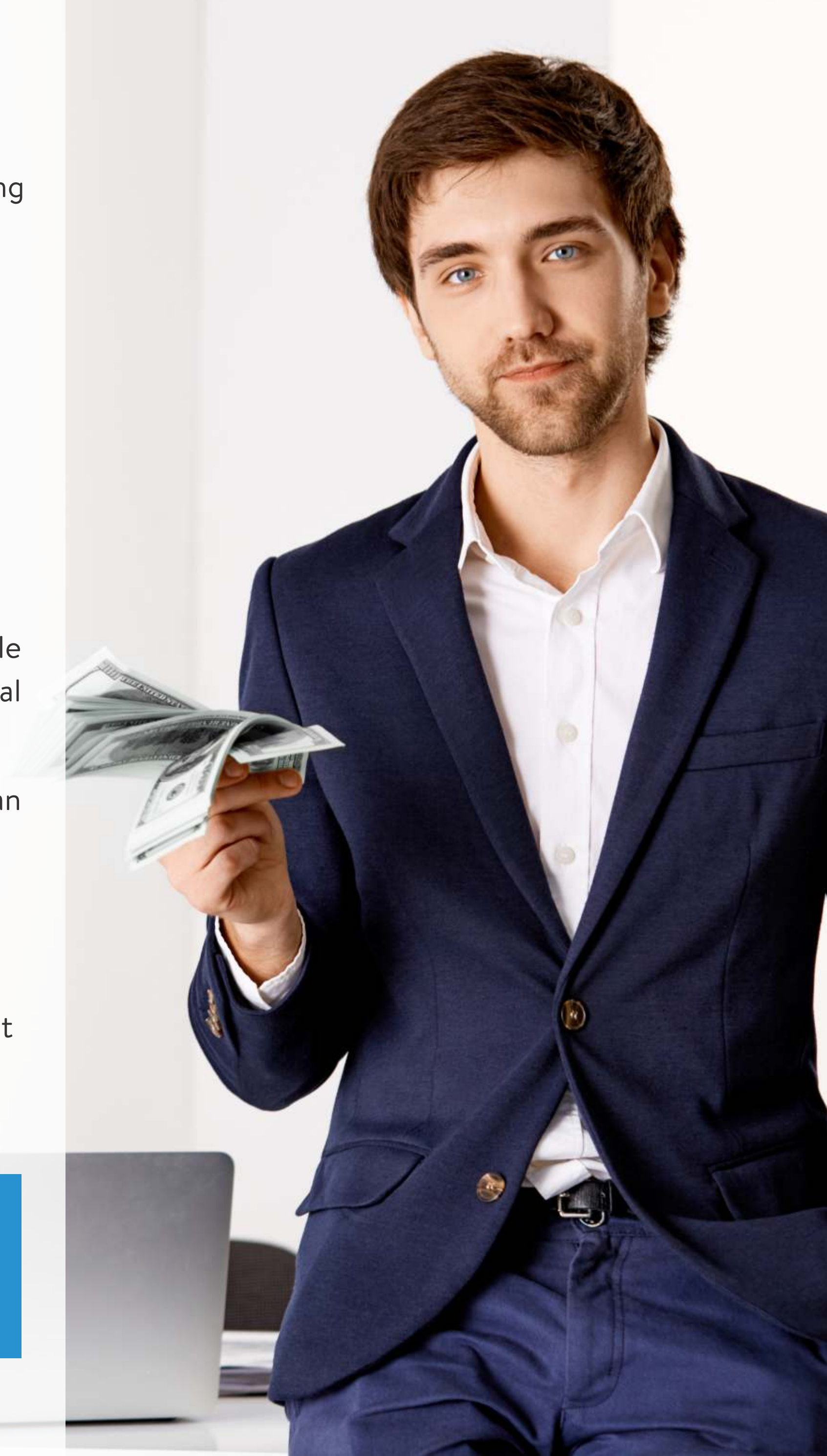
- Employers can claim, and must pay their employees at least 80% of their normal pay up to £2,500 per month.
- Employers will have to meet employer NIC and pension contributions.
- Both flexible furlough and full-time furlough are available.
- Employers are still able to “top-up” the 80%.

Employees eligible for the previous Coronavirus Job Retention Scheme (CJRS) will be eligible for the new scheme using the same pay reference and with pay according to their normal working hours as stated in the previous CJRS application.

For anyone who was not eligible for the previous scheme (probably because employment began on or after 20 March 2020), the reference periods are:

- On fixed hours/salary – the last pay period ending on or before 30 October 2020;
- Whose pay/hours vary – the average between the start date of their employment or 6 April 2020 (whichever is later) and the day before their CJRS extension furlough period begins.

Note: In a change to the previous scheme and for the purposes of these calculations, fixed salary workers with significant overtime pay will probably be treated as variable pay workers rather than fixed pay workers.



Please also note that you can only make one claim per period, so the claim must include all furloughed and flexible furloughed employees, even if you paid them at various times in the past. Claims must be restricted to calendar months. Therefore, records must be maintained to ensure that days worked are allocated to the correct calendar month in cases where the payroll straddles the calendar month-end.

Furloughed employees are those currently laid off due to the coronavirus emergency. Claims should begin on the date the employee finished work and starts furlough. Based on the HMRC guidance, pay should be calculated on the following basis:

Where an employees' pay varies and she or he has been employed for 12 months or more, you can claim the higher figure, either:

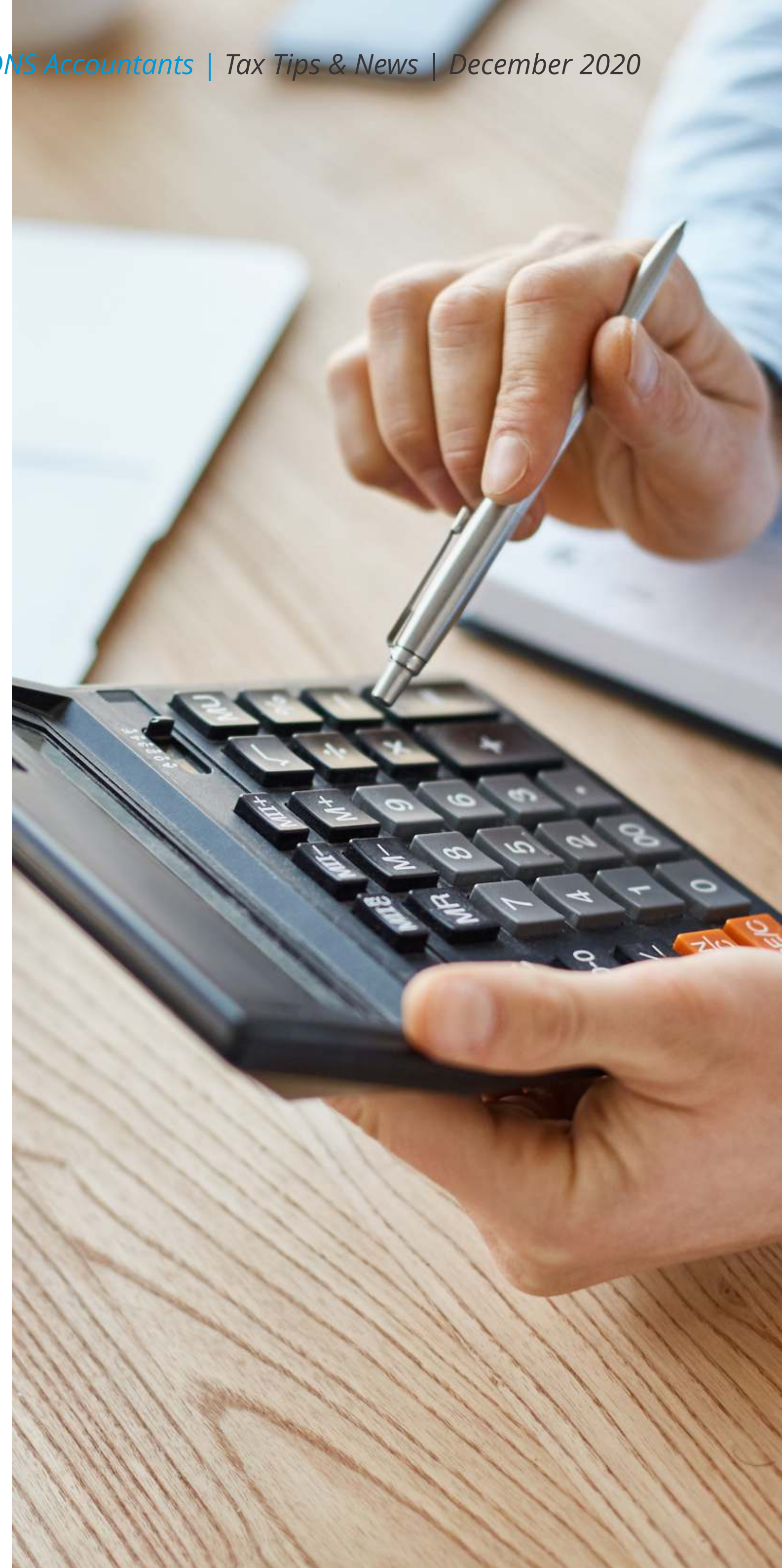
- from the previous year, using the same month's earnings, or
- based on average monthly earnings for the 2019–20 tax year.

If the employee has been employed for less than 12 months, a claim should be made for 80% of their average monthly earnings since they started work up until the date they are furloughed. If the employee has been employed for less than a month, a pro-rata calculation should be done for their earnings so far, and 80% of this figure should be claimed.

Employer National Insurance and Pension Contributions

Employers must still pay employer NICs and pension contributions on behalf of furloughed employees.

Note: Overtime and compulsory commission should be included in the calculation of wages. Discretionary bonuses (including tips), commission payments and non-cash payments should not be included in the wages calculation.



Key dates and Deadlines for December 2020

1st December 2020
- Due date for payment of corporation tax for the year ending 29th February 2020.

7th December 2020
- Deadline for VAT returns and payment accounting for the quarter period ending 31st October 2020.

14th December 2020
- EC sales list – VAT.

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

21st December 2020
- Intrastat VAT;
- EC sales list.

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

30th December 2020
- Deadline for submission of online self-assessment tax returns if underpayments are to be collected by a PAYE coding adjustment.

31st December 2020
- End of EU transition ;
- Corporation tax return (CT600) for filing accounts for the year ending 31st December 2019;
- Companies House deadline for filing accounts for the year ending 31st March 2020;
- CT61 quarterly reporting.

Awards & Accreditations

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Investing in People Award
2020

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FINALIST
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British Accountancy Awards
2019 SHORTLISTED

British Accountancy Awards
2018 WINNER

British Accountancy Awards
2017 WINNER

The British Accountancy AWARDS 2013
WINNER

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FINALIST

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Investing in People Award
2019

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