

**This issue includes updates and news on...**

- Relaxation of the “cycle to work” scheme’s conditions
- VAT reverse charge for building and construction service’s
- Goods Vehicle Movement Service: An end-to-end guide
- No penalties for late self-assessment tax return filing

**Tax Tips and questions**

- Year-end tax tips for employees
- Reclaiming VAT on business entertainment costs
- Additional 3% SDLT: Reclaiming for replacement of main residence
- IR35 simplified for agencies and hirers

# TAX TIPS & News

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

HMRC has announced that it will not be charging the penalty for late self-assessment tax return submissions in January 2021, which will come as a big relief to many taxpayers. It also indicates that the government and HMRC empathise with all people who find themselves in some administrative disarray because of coronavirus. Although the decision (as usual) came just before the deadline, I know many will be celebrating the relief of being given extra time to file – although you must still pay what you owe by 31 January 2021. However, while I appreciate that you may feel that you can take a breather now – I can hear a sigh of relief across the whole of UK plc; sadly, I must request with urgency that DNS clients do not delay. Please submit your data for your return immediately if your account manager is still waiting: you do not have time to file according to the DNS schedule!

Do bear in mind that you can delay your payment on account, too, if you think your income for the tax year 2020/21 will be significantly lower than 2019/20. There is also an option to pay in instalments. You should contact HMRC in any event if you are unable to pay your SA tax bill.

Now that Brexit has happened, the real issues and questions are becoming apparent. We have already seen that there are some significant gaps in the labour market, with some businesses struggling to recruit, and looking to further shores beyond Europe to fill their skills shortage.

The Kickstart scheme, which started with a bang, has proved during implementation to be quite difficult for businesses to apply successfully, and therefore I'm concerned that the benefits may not reach out to all. We will continue to update you about any changes to it.

The vaccination programme is well underway. By March 2021, I know that all of us hope there will be some respite. I mourn for all the lives lost and cannot get my mind around the over 100,000 deaths. Despite being one of the most advanced nations in the world how is it that we seem to have one of the world's highest death rates; it makes you wonder if it could point to Britain having one of the most deadliest versions of the virus, or whether it's down to our strategy for dealing with a pandemic. The questions apart, we all know that during this tough time it is essential that we stick together, look after each other, and remain optimistic that life will return to some semblance of normalcy soon.

**The off-payroll deadline is only a few months away and all contractor clients must plan now!**

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### Tax Tips and questions

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Finally, please refer to the Key Dates and Deadlines for February 2021 to ensure you keep up to date with the filing deadlines for your business.

Kind regards,

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

## Relaxation of the “cycle to work” scheme’s conditions

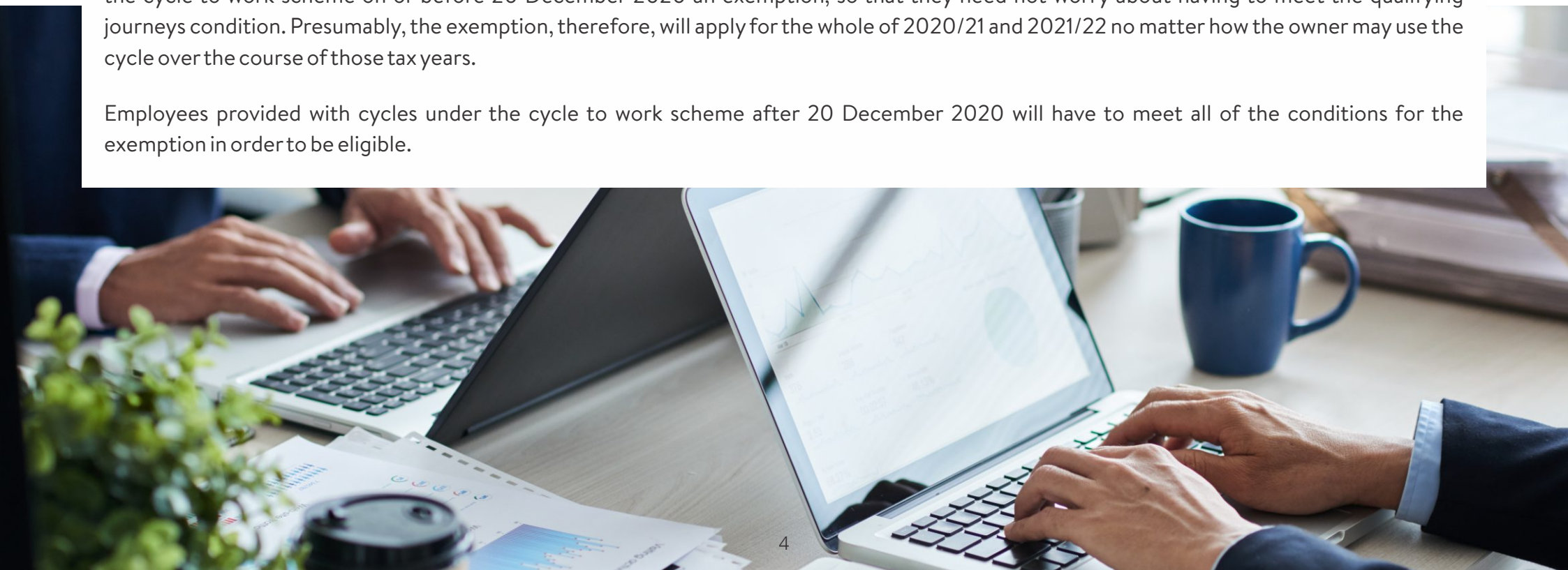
If you use the “cycle to work” scheme, coronavirus may have caused you to fail to meet the conditions for the tax and NI exemption. This has prompted a press release from HMRC to clarify the position.

The cycle to work scheme allows employers to supply their employees with cycles and biking equipment without it counting as a taxable benefit. The main requirement for the tax and NI exemption to apply is that the bicycle or equipment is “mainly for qualifying journeys”, that is, for travel between the cycle owner’s home and workplace.

Due to coronavirus, many employees have been working from home, rather than journeying to their usual place of work, which means they may find that they are unable to meet the condition of the qualifying journeys.

To solve this dilemma, HMRC has announced a temporary relaxation of the regulations. This allows anyone who took possession of a bicycle under the cycle to work scheme on or before 20 December 2020 an exemption, so that they need not worry about having to meet the qualifying journeys condition. Presumably, the exemption, therefore, will apply for the whole of 2020/21 and 2021/22 no matter how the owner may use the cycle over the course of those tax years.

Employees provided with cycles under the cycle to work scheme after 20 December 2020 will have to meet all of the conditions for the exemption in order to be eligible.





## VAT reverse charge for building and construction services: Delayed, but not dropped, so now finally coming ...

The delay of the planned introduction of the VAT reverse charge on 1 October 2019 was due to most businesses' lack of preparation to meet the new norms. However, although HMRC delayed things for over a year, it never let go of the idea of introducing the reverse charge mechanism. We now learn that the reverse charge for building and construction services is finally coming into force on 1 March 2021. HMRC acknowledges that implementing the reverse charge may cause some difficulties in the initial stages. For this reason, HMRC insists that it will not be hard on businesses that make errors for the first six months of the new legislation, but businesses must be able to prove that they are attempting to follow the new legislation and that they are acting in good faith.

### **What is the reverse charge?**

The reverse charge means that the customer receiving the specified service will be responsible for paying the VAT to HMRC instead of the supplier. In turn, subject to the normal rules for VAT recovery, the customer can recover the VAT.

### **Will I be affected?**

This may affect you if you supply or receive specified services that are reportable under the Construction Industry Scheme (CIS), as the customer will instead declare the VAT on their own returns and claim input tax. This also applies for a self-accounting entry.



### **To what end?**

Mainly revenue collection: As builders/construction workers will not be receiving the VAT themselves anymore, this means that they will no longer be able to “disappear” and deprive HMRC of the tax in question.

### **How will it affect construction workers?**

The reverse charge will affect building and construction services supplied at the standard or reduced rates, which the worker ought also to report under the construction industry scheme (CIS). These are called specified supplies.

In the case of the builder’s reverse charge, the charge may also apply to materials supplied as part of the work, for example, a plumber supplying and fitting a replacement bathroom suite. However, the reverse charge does not apply to material-only invoices, say those supplied by a builders’ merchant.

### **What about the end-user?**

Where the end-user informs their supplier or building contractor in writing that they are an end-user, the reverse charge will not apply to the supplies made available to the end-user.

From 1 March 2021, you must make clear on your sales invoices that the reverse charge applies. As per the guidance from HMRC, the invoice must show the rate of VAT that applies or the amount of VAT your customer should declare.

Please find more details [here](#)





## Goods Vehicle Movement Service: An end-to-end guide

Goods going in and out of the UK are subject to new customs rules now that the UK has left the European Union. Customs rules will ensure HMRC can collect the right duties at the right time, protect businesses and consumers, and avoid any unhelpful trade distortions between the four nations of the UK and therefore the EU.

From 1 January 2021, you are obliged to get a Goods Movement Reference (GMR) to send goods:

- From the EU to Great Britain (for transit movements only); and
- Great Britain to Northern Ireland.

You may require a GMR to move goods from Northern Ireland to Great Britain (e.g. for transit movements). Carriers will need hauliers to provide them with the reference generated by a GMR once they reach the crossings on these routes. This is applicable even for empty vehicles making a crossing. Each GMR contains the details for a single crossing, which means you must use a separate GMR for each crossing.

The Goods Vehicle Movement Service (GVMS) will:

- Link declaration references together: implying that the person moving the goods need only present one reference at the border to prove that their goods have pre-lodged declarations.
- Link the movement of goods to declarations: meaning they will be automatically arrived and departed on HMRC's systems in almost real-time.
- Notify users via their own software whether their inbound goods have successfully cleared on HMRC's systems by the time they arrive in the UK.

At border locations using the GVMS to manage goods, the pre-lodged declaration references will need to be linked together within a single Goods Movement Reference (GMR).

Registration for the GVMS opened on 8 December 2020. If you haven't registered yet, please click this link to the [GVMS registration page](#).

And for detailed guidance on GVMS registration, please click here to access the [GVMS guidance](#)

## No penalties for late self-assessment tax return filing

Due to the nationwide lockdown and worsening Covid-19 situation, there would seem to be some sympathy for taxpayers who are stressing and struggling to get the data together to file their self-assessment tax returns for 2019/20. Therefore, after due consideration of the nation's stresses, HMRC has finally announced that it has extended the SA tax return filing deadline by a month – to 28 February 2021 – to provide some breathing space for the over 3 million taxpayers who have yet to file their 2019/20 tax return.

Usually the deadline for completing the tax return for 2019/20 would be midnight on Sunday 31 January 2021. Normally, if you fail to file a return by then, a £100 late-filing penalty automatically applies. However, HMRC has acknowledged “the immense pressure” many individuals are facing because of the pandemic and that “it has become increasingly clear that some people won’t be able to file their return by 31 January”.

As a result, people who file late will not receive a penalty, providing they submit a return by 28 February 2021.

However, the government (like Sumit in his introduction to this newsletter) highly recommends people file their return by 31 January 2021 where possible. Please note: taxpayers are still obliged to pay any tax they owe for the year by 31 January 2021; interest will apply on any outstanding balance from 1 February 2021.

As late payment penalties for returns submitted after the extended 28 February 2021 deadline will apply as normal, HMRC has said it will accept Covid-19 disruption as an acceptable excuse for people missing the deadline, although the fine will still apply. However, taxpayers can appeal penalties issued by proving the severity of the impact from coronavirus, which resulted in their delay in meeting the deadline.

For more information on self-assessment penalties, please click [here](#)





## Year-end tax tips for employees

As the 2020/21 tax year-end approaches, there is still time to take advantage of tax-planning opportunities. Here are a few tax-planning tips for you.

- **Pension contributions:** You will receive tax relief on the lower tax rate portion of your earnings under £40,000 when you make a personal pension contribution. Remember that you can carry forward any unutilised annual tax allowance from the previous three tax years, provided you are registered for an approved pension scheme.
- **Marriage allowance:** An individual can transfer up to 10% of their unused personal allowance to their spouse or civil partner provided they are a basic rate taxpayer, that is: £1,250 for 2020/21, which can be done on your tax return. This can apply for up to four years after the end of the relevant tax year, thus you can still make a transfer for tax year 2016/17 provided you make the claim by 5 April 2021.
- **SEIS/EIS:** Investing in companies approved for either of these schemes can earn you 30% or 50% tax relief on your investments.
- **ISA/LISA allowance:** Have you utilised your full ISA allowance of £20,000 for the tax year? The income and gains from these investments and within such accounts are tax-free. If you are between 18 and 39 years old, a LISA enables you to save up to £4,000 per tax year and receive a £1,000 government bonus towards your first house or retirement. For children/grandchildren you can invest up to £9,000 in the tax year 2020/21. You should speak to your financial adviser.
- **High-income child-benefit charge:** Preserve entitlement to child benefit if your total income is between £50,099 and £60,000 by making personal pension contributions and donations to UK/EU charities.
- **Expenses:** Claim expenses paid wholly, exclusively, and necessarily in relation to your employment, such as business mileage, use of a home office, professional fees, pension contributions and uniform expenses. You have four years from the end of the tax year to claim overpayment relief, so you should claim any relief for the tax year ended 5 April 2017 by 5 April 2021.
- **Salary sacrifice scheme:** Consider a salary sacrifice scheme and exchange a portion of your salary for a tax-exempt benefit, such as employer pension contributions, the cycle to work scheme or an electric car, and save personal taxes at 32% for a basic-rate taxpayer and 42% for a higher rate taxpayer.
- **Capital gains annual exemption:** Have you utilised your annual tax-free capital gains tax exemption of £12,300? You must use it or lose it, as carrying it forward to future years is not possible.
- **Form-17 or transfer of joint assets to spouse or civil partner:** Transfer income-yielding assets to your spouse/civil partner if they pay tax at a lower rate. Consider splitting the income to your actual share of the ownership of an asset. Please contact your account manager for more information.

For more details about any of these tax tips, please speak to our tax team today or download our [free Tax Tips guide](#)

## Reclaiming VAT on business entertainment costs

As a rule, HMRC doesn't allow VAT to be reclaimed on the cost of business entertaining. However, there are exceptions, so make sure your company is not missing out by reading the outline below.

### Entertaining, VAT and corporation tax

As you may be aware, HMRC's rules block businesses from obtaining tax relief for most types of business entertaining. The block covers corporation tax as well as VAT. However, the rules for corporation tax and VAT differ in one important aspect, which is, for corporation tax, business entertainment costs are disallowable in full, while it is permissible to apportion the VAT between allowable and non-allowable amounts.

Example: A member of the advertising/sales team visits a prospective customer and takes them out to lunch. For corporation tax purposes, the entire lunch bill is a disallowed expense even if a portion of it relates to the employee while carrying out business. However, your company should be able to reclaim the VAT on the lunch bill that relates to your employee's meal if it can be classed as "subsistence" rather than "entertainment".

**Trap:** Where the only reason for the expense is entertainment, reclaim of the VAT is not allowable, even when part of the cost relates to an employee.

### Key consideration

- A different rule applies when the cost relates to staff alone. If your company incurs expenses by, for example, taking staff out for a meal in a restaurant to celebrate a good business month, this will be considered an employment expense and so VAT can be reclaimed on the related costs. There is also no monetary cap as far as an input tax claim on the staff meal is concerned, that is, no cap at £150 per head applies in this case.
- The cost of the VAT on a meal for the directors can be claimed back providing the same entertainment is available to all staff generally within the company, as in the case of the office Christmas party, for example. However, a problem arises if the directors claim VAT back on local restaurant meals in the company/business records.

In summary, you can apportion business entertainment between allowable and non-allowable amounts for VAT purposes. For example, if the cost includes an employee's meal with a customer, VAT can be reclaimed for the employee element of the meal. Just remember to apportion the expense in a fair and reasonable way and always hold on to the records.



## Additional 3% SDLT: Reclaiming for replacement of main residence

Since 1 April 2016, higher rates of stamp duty land tax (SDLT) apply to purchases of second and subsequent residential properties where the cost of the additional property is over £40,000 (so, virtually all properties then!). Despite the supplement charge, where a person has more than one residential property, it is possible to replace the main residence without suffering the additional rates on the purchase of the replacement.

### Replacing the main residence

The higher rate does not apply when a property purchase replaces the main residence, even if the taxpayer has additional residential properties. However, the higher rate will be payable initially if the purchase of the new main residence happens before the sale of the former main residence. But, provided the former main residence is disposed of within three years of the acquisition of the new residence, the additional SDLT can be reclaimed.

### Example

Peter and Hailey have been trying to sell their existing home for some time. They found their dream home and completed the purchase on 1 October 2019 at a price of £500,000.

As this is their second property and they still own their main residence, they had to pay the higher rate of SDLT, which is £30,000 (£125,000 @ 3% + £125,000 @ 5% + £250,000 @ 8%).

However, if they sell their former main residence by 30 September 2022, they can reclaim the additional SDLT paid, a repayment to them of £15,000.

### Reclaiming the higher rate SDLT

If the sale of the former main residence happens within three years of the purchase of the new residence, the higher rate of SDLT can be reclaimed, but the onus is on you. There is no automatic repayment, so you must remember to make the claim within three months of the sale of the former main residence, or within 12 months of the filing of the SDLT return following the purchase of the new property.



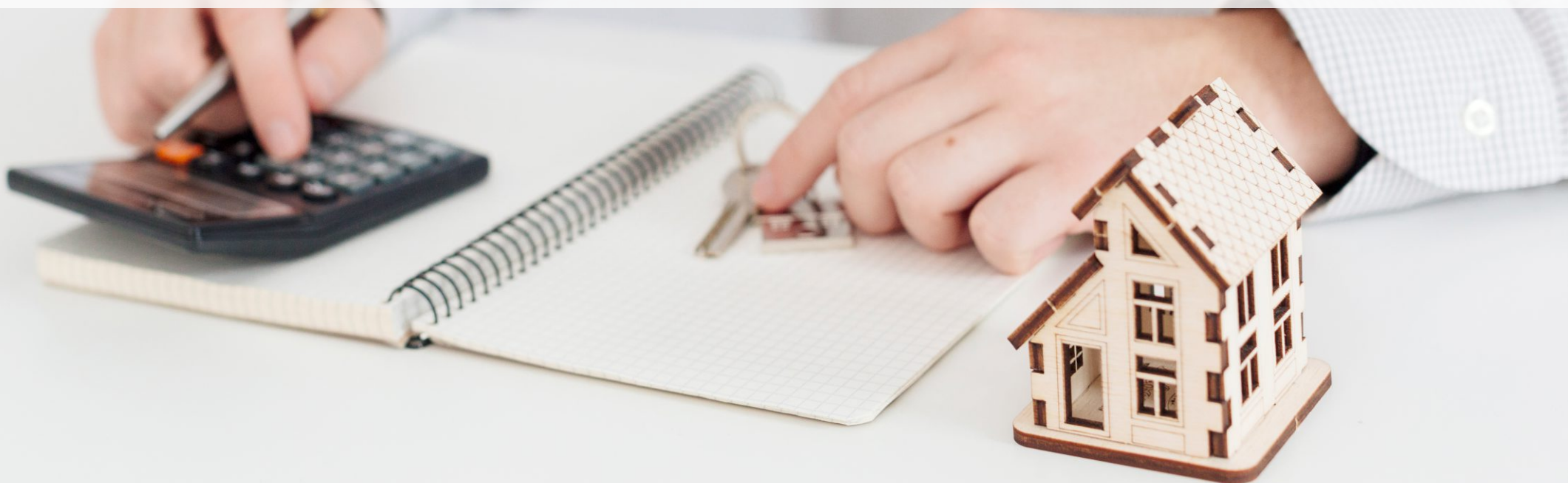
### Relaxation of the three-year rule for reclaiming additional SDLT of 3%

The government has listened to the concerns of property sellers and advisers that, directly due to COVID-19, the property market has not been functioning as normal. Therefore, the government announced on 3 June 2020 that it would extend the three-year window where the seller has been unable to dispose of their main residence due to exceptional circumstances. HMRC gives specific examples of what constitutes exceptional circumstances:

- being prevented from selling the property owing to government guidance during the Covid-19 pandemic; or
- another action was taken by a public authority preventing the sale of the property.

This relaxation only applies for purchases of a new main residence on or after 1 January 2017. HMRC will consider claims on a case-by-case basis.

For more information, please read our blog [additional-stamp-duty-land-tax-sdlt-surcharge](#)



## IR35 simplified for agencies and hirers

If you are a hirer – not a “small company” – that intends hiring a contractor to carry out work after 6 April 2021 it is important you understand your obligations, as the new legislation makes you potentially liable for the contractor’s tax expense.

A risk arises whenever a contractor company (PSC) receives the gross sum without deduction of PAYE and NICs accounted to HMRC, and a tax investigation commences. Proceedings can take months if not years to conclude, and unless all ducks line up in your favour, which is doubtful, there is the distinct possibility that you will have to pay any unpaid levels of tax and NICs on the contractor’s behalf with interest and penalties. Even if you have contractual indemnities in place, the experience will not be a fulfilling one. For these reasons alone, it will not be at all surprising when some hirers simply refuse to take on PSC contractors come April 2021. The key is to avoid the investigation in the first place.

Fortunately, a risk- and cost-free solution is at hand, so you should follow these simple stages:

### Stage 1 – Recognise the realities.

- Think about how you intend using the contractor; everything else follows from there, and not the other way round.
- Forget the tax: This follows the nature of the work and the decisions you make, not the other way round. As soon as you start to adjust anything to reduce the tax risk, you are by that very act creating risk!
- Do not think that you have to assess actual employment status: There is generally no actual employment status if you use a contractor.
- Do not rely on “substitution”: Some advisers insist that this is a key factor, but it is not unless it is real, so taking this route is not a silver bullet.

**Stage 2 – Ask yourself the following three questions:**

- Do you need an extra person to do a specific job for a specific purpose?
- Is that person to be responsible for completing that job, rather than just undertaking some temporary work for a period?
- Will that person have autonomy when undertaking the job, such that you will rely on that person to carry out the work correctly?

If the answer to all three questions is an unequivocal “YES” you have nearly completed the exercise. To double-check that your “YES” answers are correct, check yourself, and ask the following two questions:

- Is it your intention to require the extra person to do more or different work over and above the required job?
- Do you expect the person to have to ask you or a line manager what to do and how to do it?

If the answer is an unequivocal “NO” to both of these two questions, you are good to go. There is no reason why you should not hire a contractor, you will avoid a tax investigation, and you will not run the risk of having to pay IR35 taxes.

However, if, on the other hand, you cannot answer as above, you must accept that there will be a risk. You can attempt to offset that risk by using HMRC’s online CEST tool, obtain an independent review, or procure IR35 insurance to provide cover for the NICs and PAYE in certain circumstances. But all of these solutions come at a cost and none comes with a guarantee, especially if the questions above cannot be answered unequivocally.





# Key dates and deadlines for February 2021

- 1<sup>st</sup> February 2021** • Corporation tax payment due for year-end 30<sup>th</sup> April 2020, for companies not liable to pay by instalments.
- 7<sup>th</sup> February 2021** • VAT return due date for 31<sup>st</sup> December 2020 VAT returns, unless exempted.
- 19<sup>th</sup> February 2021** • Postal payments: If you pay by cheque by post, monthly payments are due for PAYE, class 1 NICs and student loan deductions from January 2021.
  - Construction Industry Scheme (CIS) monthly return due for the period up to 5<sup>th</sup> January 2021.
- 21<sup>st</sup> February 2021** • Intrastat due date for payment of supplementary declarations for January 2021.
- 22<sup>nd</sup> February 2021** • Electronic payments: of PAYE, class 1 NICs, student loan deductions and deductions from payments to subcontractors for the month up to 5<sup>th</sup> January 2021.
- 28<sup>th</sup> February 2021** • Filing deadline for submission to HMRC for corporation tax return self-assessment form CT600 for the period ended 29<sup>th</sup> February 2020.
  - Company accounts filing deadline: the deadline for filing your company tax return is 12 months after your accounting period for corporation tax ends.
  - Extended filing date for 2019/20 personal, partnership and trusts self-assessment (SA) tax returns.



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