

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

- Deferring Self-Assessment Payments on Account.
- VAT Domestic Reverse Charge for Construction Services Delayed.
- Lifetime ISA Rules Relaxed: No Penalty for Early Withdrawal.
- Warning for Company Directors Overuse of 'Bounce Back' Loans.

**Tax Tips and questions**

- VAT Business Splitting: Is it legitimate?
- Gifting Property to Children: Tax Implications.
- Business Entertainment Expenses - What is allowable?
- Maximising Income Using Tax Allowances.

# TAX TIPS & News



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

The UK economy has contracted by a record 20.7% in the month of April 2020 and the UK government has struggled to resolve the dilemma about how quickly to open schools / pubs / restaurants etc to give a kick start to the slowing economy.

With that in mind from 4<sup>th</sup> July 2020, the 2 metre rule is to be reduced to one metre plus giving a much required boost to the economy. The challenge is to give this boost to the economy whilst also keeping us safe.

I recently read that almost every beach was full. I am not sure if the public is tired or careless but whatever happens it's a collective responsibility to keep ourselves and those around us safe.

Significant challenges for the government lie ahead and will they have enough money to continue pumping into the economy. With Furlough support to end by October, many fear that they will lose their jobs without the furlough payment. The more I think about this, the more my head spins to solve this puzzle, but if I try to simplify this, the only sensible option is that overall we have no choice but to go back to work safely.



Despite all the economic negativity, DNS continues to maintain momentum and we have planned some excellent webinars for July 2020. June 2020 was eventful with plenty of informative webinars too. We are on mission to educate and empower our clients making sure they do not miss any opportunities. We will continue to build momentum for our strategy to provide more webinars and online support. Your feedback is vital to us and will further help us improve.

I am also pleased to announce that we now have a presence in Wales after joining hands with Phil Bessant Ltd Chartered Management Accountants. Established for over 25 years, Phil Bessant is a CIMA qualified savvy accountant who shares a similar ethos to DNS. We continue to grow the DNS Accountancy Group and your continued support is vital for us to help support you better.

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### Tax Tips and questions

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Please refer to the **Key Dates and Deadlines for July-2020**, to keep up to date with the filing deadlines for your business.

Please keep a lookout for our upcoming Webinars and ensure you register yourself for the events that interest you. We will continue to bring you more informative topics based on your feedback and demand.

The Pandemic is not over yet so let's not behave as if it's over. I wish you an excellent July, enjoy the weather, but stay safe.

Kind regards

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

## Deferring your Self-Assessment Payments on Account

On 17<sup>th</sup> of March 2020, the Chancellor Rishi Sunak announced a raft of measures to support the businesses and individuals affected by Covid-19. Amongst other measures, individuals can also choose to defer their second payment on account due on 31<sup>st</sup> July 2020 for the tax year 2019/20.

Anyone can defer the payments provided:

- They are registered in the UK for Self-Assessment and
- finding it difficult to make second payment on account by 31<sup>st</sup> July 2020 due to the impact of coronavirus.

The government has confirmed there will be no penalties or interest charged by HMRC if the payment is deferred and paid by 31<sup>st</sup> January 2021, after which usually penalties and interest will apply.

The individual does not need to inform HMRC as the deferral is automatic and it is advisable to cancel the direct debit through the bank as soon as possible so that HMRC will not automatically collect any payment due. Of course individuals can still choose to continue to make the payment as usual by 31<sup>st</sup> July 2020 if they want to do so.





## VAT Domestic Reverse Charge for Construction Services Delayed

Due to the impact of the Coronavirus on the buildings and construction sector, the UK VAT domestic reverse charge (DRC), that was due to be introduced with effect from 1<sup>st</sup> October 2020, has been delayed further until March 2021.

DRC has already been delayed previously by one year from its original implementation date of 1<sup>st</sup> October 2019. In a statement, HMRC have confirmed they remain committed to the implementation of the DRC, and it is still set to significantly impact most businesses operating in the construction industry, but not until 1<sup>st</sup> March 2021.

The DRC is an anti-fraud measure intended to clamp down on perceived tax evasion within the construction industry. The DRC shifts the responsibility of the VAT payment from the supplier to the customer receiving the service, who will now have to pay the VAT due directly to HMRC, reported through the Construction Industry Scheme.

The original legislation has been amended to make it a requirement that for businesses to be excluded from the reverse charge because they are end users or intermediary suppliers, they must inform their sub-contractors in writing that they are end users or intermediary suppliers.

More information on the Domestic Reverse Charge can be found [here](#).



## Lifetime ISA Rules Relaxed: No Penalty for Early Withdrawal

Lifetime ISA rules have been changed to help people whose incomes have been affected by Covid-19, which means people who want to access their funds early can now do so without incurring an additional withdrawal charge.

The Lifetime ISA helps younger people to save for their first home or retirement by offering a 25% bonus, paid monthly, on up to £4,000 of savings each year. As with many other long-term saving products, withdrawing funds early or for unintended purposes normally incurs a charge of 25% of the amount withdrawn, to discourage people from using LISA funds other than the intended purpose of buying a first home or for later life.

The Economic Secretary to the Treasury, John Glen said: "We know that some people are experiencing financial difficulties during these unprecedented times and we want to make it as easy as possible for people to access their savings, especially if it helps them avoid falling into high cost or unmanageable debt."

He further stated "That's why we are reducing the withdrawal charge for Lifetime ISAs, so people can access their funds to help get them back on their feet. This is part of the wide range of support we have put in place to help people who have been affected by Coronavirus with their finances."

The move is part of the government's unprecedented package of support and will be legislated back-dated from 6th March for a temporary reduction in the LISA withdrawal charge to 20% between 6<sup>th</sup> March 2020 and 5<sup>th</sup> April 2021 (inclusive). This will mean account holders will only have to pay back any government bonus they have received, but will not pay the additional withdrawal charge of 5%.

Anyone contemplating to use their savings should weigh their options and seek advice on managing finances. More on information on the change can be read [here](#).

## Warning for Company Directors Over Use of 'Bounce Back' Loans

The Bounce Back Loan Scheme (BCLS) was introduced to help small-businesses obtain funding quick and easily. So far 863,584 small businesses have been able to secure funding through the Scheme, with an average of £30,500 per business amounting to total funds dispensed worth £26.34bn.

Under BCLS, the loan is 100% backed by the government and the company directors don't need to provide a personal guarantee; and the loans should be used to fund the working capital of the company. However, there are some company directors who have considered using the loan to repay themselves or for personal use, which could result in penalties for the business. There is also false presumption that if the company fails due to Covid-19 and subsequently enters into creditor's voluntary liquidation (CVL), then responsibility for paying back the loan remains with the company and liability would not be transferred to directors.

We would like to highlight that this will not be the case if directors have acted improperly and breached their fiduciary duties or abused the loan scheme. While wrongful trading provisions have been temporarily suspended, other provisions of the Insolvency Act and Companies Act remain in operational. Directors need to be mindful of potential misconduct and the issue of 'preference payments' when refinancing existing debts especially when the business owes money to the directors or a personal connected to them.

Please contact us if you need support and guidance on the use of the bounce back loans.



## VAT Business Splitting: Is it legitimate?

The artificial separation of businesses is the process where two or more businesses are split in way that one or all 'separate' structure functions below the VAT registration threshold i.e. £85,000 prevailing. HMRC refers to this as disaggregation of business and have legal powers to direct the businesses that have been artificially disaggregated to avoid VAT be treated as a single entity for VAT purposes.

As a business that provides services to individual customers (like tattoo artist, restaurants) approaches the VAT registration threshold, they realise that if they register for VAT they will either have to take a 20% pay cut in order to remain competitive, or increase their prices by 20% and lose customers. Therefore, many business in this situation may consider business splitting.

Somewhere HMRC believes this practice qualifies as tax avoidance and can issue a 'notice of direction' directing that the two businesses be treated as one from a current date. HMRC cannot backdate a notice of direction so any VAT registration requirement and VAT due will only be from a current date. For businesses that are genuinely separated and to avoid notice of direction, they need to demonstrate that there is no 'financial, economic or organisational' link between the separated businesses. When deciding whether businesses are related or not HMRC will look at below:

### Financial Link

- They are sharing the same bank account.
- Both businesses getting benefits from a common business profit or financial interest.
- There are Financial dependent on one another.

### Economic Link

- One part is getting the benefit from the activities of other part.
- They have the same customer and supply chain.
- Sharing sales promotions and advertisements.





## Organisational Link

- Sharing Common employees and/or management.
- Sharing equipment.
- Operating through the same offices.

Under the anti-avoidance measure, HMRC is not required to prove that there was an intention to avoid VAT. They only need to prove that the artificial separation resulted in an avoidance of VAT. Hence, For disaggregation to work the business should normally have the following:

- There should be Separate bank accounts and business records in place.
- Any transactions of goods or services between the segregated entities must be done on an arms-length basis like staff cost.
- Customers and suppliers should be convinced that they are dealing with two businesses.
- Separate tax returns must be submitted for each separate unit.

**Tip:** *If there are good commercial reasons to run separate businesses and they have been separated properly, useful savings can be achieved and the business can remain competitive. Businesses should make sure the two businesses are kept completely separate to avoid notice of direction.*



## Gifts Property to Children: Tax Implications

The COVID-19 outbreak is a symbol of how fragile and unpredictable our lives can be in an unusual state of affairs. Worldwide, the outbreak is claiming lives and livelihoods as health systems buckle, schools close and families struggle to stay afloat. This situation has focused minds on how wealth will be passed to the next generation.

There are significantly increasing numbers of clients who are contacting their accountant and financial advisor to discuss the best ways of passing down property to their children and grandchildren.

The benefits of gifting a property to their children can include spreading rental income if it's a buy to let and reducing inheritance tax (IHT). However, the tax implications of making such gifts should not be overlooked.

### Capital Gains Tax

Capital Gains Tax (CGT) is payable when transferring a property which is not your main residence. So if, for example, you are gifting a rental property to a child, you may be liable to pay CGT even if there is no consideration received, because for CGT purposes you are connected to the child and any gift will be deemed disposal at market value and subject to CGT. The tax payable on a transfer to the child would generally be calculated based on the value uplift (gain) between the date of purchase of the property and the date of gift. The CGT is payable by the donor being the person who made the gift within 30 days of transfer.

*Note: An instalment plan can be agreed with HMRC where the tax can be paid over 10 yearly instalments.*

### Stamp Duty and Land Tax

You only pay stamp duty land tax (SDLT) on the consideration given, not on the equity in the asset transferred. If the transfer is a pure gift and there is no consideration received, no SDLT is payable. This is the case so long as there is no outstanding mortgage on the property. However, if the donee takes over any part of an existing mortgage, SDLT is payable if the value of the mortgage is over the SDLT threshold.

## Inheritance Tax (IHT)

In order to reduce the value of your estate and IHT impact, you can make an outright gift of the property to the child. This would be treated as a 'potentially exempt transfer' (PET). If you die within seven years of gifting the property, it would be counted towards your estate and IHT would be payable.

*It's worth noting that if you give away the property as an outright gift, you also give up any right to receive a rental income or share in any profits and this gift should be with no reservation otherwise it may become part of your estate.*

**Tip:-** A beneficiary will not usually be liable to pay Capital Gains Tax (CGT) on their inheritance. This is because there is no CGT charge upon death and the value of the asset is uplifted and transferred to the beneficiary at their market value on that date. For married couples, this could be a good planning point where the property is first transferred to the surviving spouse and then it could be immediately transferred to the child, this will save CGT from applying.

## Business Entertainment Expenses - What is allowable?

Business Entertainment is defined by HMRC as to 'facilitate free or subsidised hospitality or entertainment. The person being entertained can be a customer, a potential customer or any other person like staff'. There are numerous vital points to remember when you're planning to claim business entertainment expenses.

General rule is that a business entertainment expenses are not allowable deductions for tax purposes. However, that's not the whole story and it would depend on who is going to claim business entertainment expenses and, on their situations.



## Director/employee – claiming business entertainment expenses

If you're a director or employee, you may get reimbursed for entertaining expenses tax-free, for those which have been incurred wholly, exclusively and necessarily in the performance of your employment duties. Provided the conditions are met:

- The company may reimburse the cost of any business entertainment tax-free to the director/employee.
- There would be no tax consequences for the director or employee i.e. The company can pay the cost of business entertaining directly without having BIK.

*Tip: If HMRC believes these aren't business entertainment expenses and or not related to business anyhow, the cost will be taxed in the hands of the director/employee as earnings from their employment. It's worth to keep proper records when claiming business entertainment expenses. HMRC can argue that without records it cannot be incurred wholly, exclusively and necessarily in performance of your employment duties.*

## Company – claiming business entertainment expenses

For companies the position is comparatively straight-forward:

- It is disallowed for the corporation tax purposes whether paid for on behalf of or reimbursed to a director or employee.
- Staff entertainment is not counted as 'business entertainment' so it is considered as an allowable deduction for corporation tax purposes. You should account this in separate expense head as it is a staff benefit and therefore a cost of 'staff welfare'.

When your company rents a room for an event promotion, where selling or other business promotional activities take place followed by some entertainment, you would be able to claim this expense under the head advertising or marketing cost. In the event of question by HMRC make sure that any promotion or event reflects the sales, marketing or other business angle to justify this expense.

**Points to consider:** A mixed event including members of staff but also non-staff (including customers/ clients but also staff on other group companies) are considered as business entertaining for the corporation tax purposes. The belief is that staff is going to attend the event to act as a host to the non-staff like customers and therefore the main purpose of the event is business entertaining.



## Maximising Income using Tax Allowances

### Personal allowances & reliefs

UK-resident individuals/citizen is entitled to claim the personal allowance of £12,500 for the tax year 2020/21. Non-savings and non-dividend income which are above this threshold, will be taxed at rates from 20% to 45%.

### Starting Rate for Saving

If your income from an employment from your company or non-savings income is below the £17,500 in 2020-21, but you are getting income through interest on savings, you may also qualify for the starter savings allowance. Any interest up to £5,000 is tax-free. This is going to be in addition to your personal savings allowance.

### Personal Savings Allowance (PSA)

As a basic-rate taxpayer (where total income does not exceed £50,000), you are also allowed £1,000 tax-free interest income. For higher rate taxpayers, £500 worth of interest income is tax-free.

### Dividends

The first £2,000 of income from dividends in 2020/21 is tax-free, while income from dividends that exceeds this amount is taxed at rates of 7.5%, 32.5% or 38.1% depending on your tax band

Therefore if structured correctly, a director could take home £20,500 in tax-free, by taking no more than £12,500 in employment income, £2,000 in dividends and £6,000 in savings income.

**Example:** Consider X who owns 100% shares in ABC Ltd, a company involved in software development. X withdraws £12,500 as salary. In addition to this, X has lent money to ABC Ltd and receives an annual interest of £6,000 from ABC Ltd. ABC Ltd after all deductions makes a profit of £78,000 and distributes only £31,500 in dividends to X. The company is the only source of income.

**X's Total Income: £12,500 + £6,000 + £31,500 = £50,000.**

As, X's total income is below £50,000, X is a basic rate taxpayer and will have the following tax liability:

Income Type	Income	Tax Payable
Salary - (covered under PA of 12,500)	£12,500	£0
Interest Income (Starting Rate savings and PSA)	£6,000	£0
Dividends (£2,000 tax-free)	£2,000	£0
Total	£20,500	£0

**X can therefore take £20,500 in tax-free income and will be subject to further tax of £2,213 on the remaining £29,500 dividends.**

*Tip: Individuals who have positive director loan balance or have surplus funds to lend, could consider charging interest to their company to make use of the PSA and the starting rate for savings.*

# Key Dates and Deadlines for July 2020

- 1<sup>st</sup> July 2020**
  - Due date for payment of Corporation Tax for period ended 31<sup>st</sup> October 2019.
- 5<sup>th</sup> July 2020**
  - Last day for agreeing the operation of a PAYE Settlement Agreement (PSA) for the previous tax year with HMRC.
- 6<sup>th</sup> July 2020**
  - Deadline for submitting forms 42, Forms EMI40 and other relevant forms to HMRC to report share-related benefits provided to employees in the previous tax year.
  - Deadline for filing forms P11D and P11D(b) for the previous tax year with HMRC.
  - Last day for giving any relevant employees their copy of form P11D for the previous tax year.
- 7<sup>th</sup> July 2020**
  - Deadline for VAT returns and payment accounting Quarter period ending 31<sup>st</sup> May 2020.
- 14<sup>th</sup> July 2020**
  - Return and payment of CT61 tax due by companies paying interest, royalties etc for quarter to 30<sup>th</sup> June 2020.
- 19<sup>th</sup> July 2020**
  - Monthly deadline for postal payments of CIS, NICs and PAYE to HMRC.
- 20<sup>th</sup> July 2020**
  - Deadline for VAT MOSS return and payment for the quarter ended 30 June 2020.
- 22<sup>nd</sup> July 2020**
  - Deadline for electronic remittance of CIS, NICs including Class 1A and PAYE to HMRC.
- 31<sup>st</sup> July 2020**
  - Deadline for second SA payment on account due for the tax year 2019/20. (Payment can be deferred till 31<sup>st</sup> January 2021).
  - Companies House Deadlines for filing the accounts for year-end 31<sup>st</sup> October 2019.
  - Corporation Tax Return (CT600) for filing the accounts for year-end 31<sup>st</sup> July 2019.



## Awards & Accreditations



# BRITISH ACCOUNTANCY AWARDS 2017 & 2018 **WINNER**

Independent Firm of the Year South-East, England

  
**FINALIST**

  
**2019 SHORTLISTED**

  
**TOP 5**  
accountingexcellence  
Investing in  
People Award  
2019

  
**2018 WINNER**

  
accountingexcellence  
**SHORTLISTED**  
**2018**

  
**2017 WINNER**

  
**PRACTICEexcellence**  
**SHORTLISTED**  
**2017**

  
**AWARDS 2013**  
**WINNER**





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