DNS Accounting Group

TAX TIPS & News

This issue includes updates and news on...

Tax Tips and questions

Newsletter *May 2020*

Welcome to May's edition of Tax Tips & News bulletin

The Covid-19 crisis has had a significant impact on all of us, and has changed the way we live and work. In our previous life (life before Covid-19), many of us were convinced that important business decisions could only take place in an office setting, but the recent crisis has changed this perspective entirely and remote working has become the need of the hour. At this crucial time, everyone's main focus is on their physical wellbeing, but we must not forget that mental wellbeing is equally important; and one should take time to switch off from work to recharge their batteries and reach out to their loved ones, and to check that they are coping well with the pressure.

Chancellor Rishi Sunak has opened the government coffers to support business and families at a scale and level which has never been heard off in the modern history of our country. There are number of measures which include:

1. Job Retention Scheme for furloughed employees which is available for 4 months till June 2020.
2. Bounce back loans up to £50,000 which are 100% govt. guaranteed.
3. Self Employed Income Support Scheme (SEISS) of up to £7,500. This may be extended for another month.
4. Corona Virus Business Interruption Loan Scheme (CBILS) which is 80% guaranteed by the government.
5. Increase in Universal Credit allowance for those not in a Job.

Whilst the government has been generous, Limited Company directors, mainly freelancers and consultants have not been able to maximise the benefits of furlough as most of them take the basic wages of up to the NI threshold which means their furlough benefit will be 80% of their lower level of wages.

Secondly landlords have been struggling to collect rents from tenants and given that no legal action can be taken against the tenants whether its residential or commercial they are the real losers. Landlords can defer the instalments but eventually they are the ones losing rental income. On the whole, the support to businesses, families and the self-employed is fast and balanced and it's impossible to support everyone during this time. I hope they can replicate the similar level of support in healthcare to protect and save more lives. Without doubt special thanks to our NHS and every worker, including all key workers, who keep us going during this tough time.

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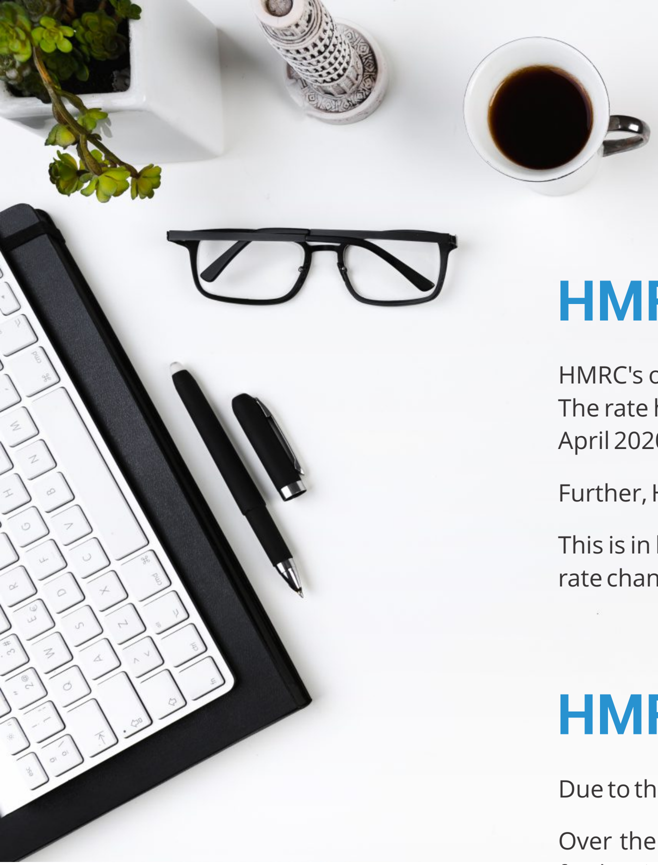
Tax Tips and questions

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

As always, the entire team at DNS is here to help during this period of crisis.

Stay Home! Stay Safe!

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



HMRC's Official Rate of Interest drops to 2.25%

HMRC's official rate of interest is the rate used to calculate the taxable benefit on the loans provided to employees or directors of a company. The rate has remained constant at 2.5% since it was changed on 6th April 2017. The interest rate has been dropped to 2.25% w.e.f. from 6th of April 2020.

Further, HMRC has also reduced the late payment interest to 2.60% (earlier 3.25%) from 7th April 2020.

This is in line with HMRC's commitment given in January 2000, that official rate may be reduced but will not be increased in the light of interest rate changes generally.

HMRC Investigations Take a Backfoot

Due to the current pandemic, HMRC has temporarily suspended some investigations into taxpayers and businesses.

Over the last few weeks, we have received several letters from HMRC on the ongoing investigations, stating that they are not requesting further information or documents from taxpayers during the lock-down or not enforcing requests for information they have already made and in some cases they have decided to temporarily suspend the inquiries and will not be requesting further information or documentation till the Covid-19 situation improves. However, the letters do state that the taxpayers can request HMRC to continue with the investigations should they wish to proceed by getting in touch with the concerned officer.

The reason for the suspension is mainly because HMRC is currently prioritising the support they are offering to businesses and individuals, and a lot of resources and officers are being used to administer the schemes proposed to help businesses and individuals in these extremely difficult times, especially the employee furlough scheme which went live on 20th of April 2020.

Therefore, those facing an enquiry can request HMRC to suspend it, till the pandemic gets over; but taxpayers and businesses should understand that this is only a temporary pause to the ongoing enquiry, and does not mean that potential tax liabilities will be forgotten or HMRC will give up the enforcement of tax debts.

In the aftermath of the lockdown period, many businesses and taxpayers will need to focus on recovering the revenues lost and an enquiry will only mean loss of focus in reviving the business, hence we suggest businesses should make an informed decision before deciding to formally postpone the enquiries, as we believe it is a good opportunity to use this time created by the lockdown to deal with the enquiries rather than leaving the problems for the future.

New Small-business 100% Government Backed Loan Scheme Announced

Coronavirus Business Interruption Loan Scheme (CBILS) which went live on 23rd March 2020, have failed to achieve the very purpose it was designed for, as the banks are reluctant to lend despite 80% of the loan being backed by the government, unless additional security is provided by the borrowers.

In order to extend further support and revamp businesses, the Chancellor Rishi Sunak, on 27th April 2020 announced a new 100% government backed loan scheme for small business. Under the new scheme, businesses will be able to borrow between £2,000-£50,000 through a fast-track application system. The loans will be interest free for the first 12 months and will be 100% backed by the government, meaning no personal guarantee or additional security will be required from businesses.

The scheme will be open to apply from 4th May 2020 and businesses will be able to apply online using a short and simple form through a network of accredited lenders. The government has further confirmed that it will be working with the lenders to get the funds advanced as quickly as possible and lower the rate of interest for the remaining period of the loan.

The new scheme will run in parallel to the existing CBILS and Coronavirus Large Business Interruption Loan Scheme (CLBILS).

Full details on CBILS can be accessed here.

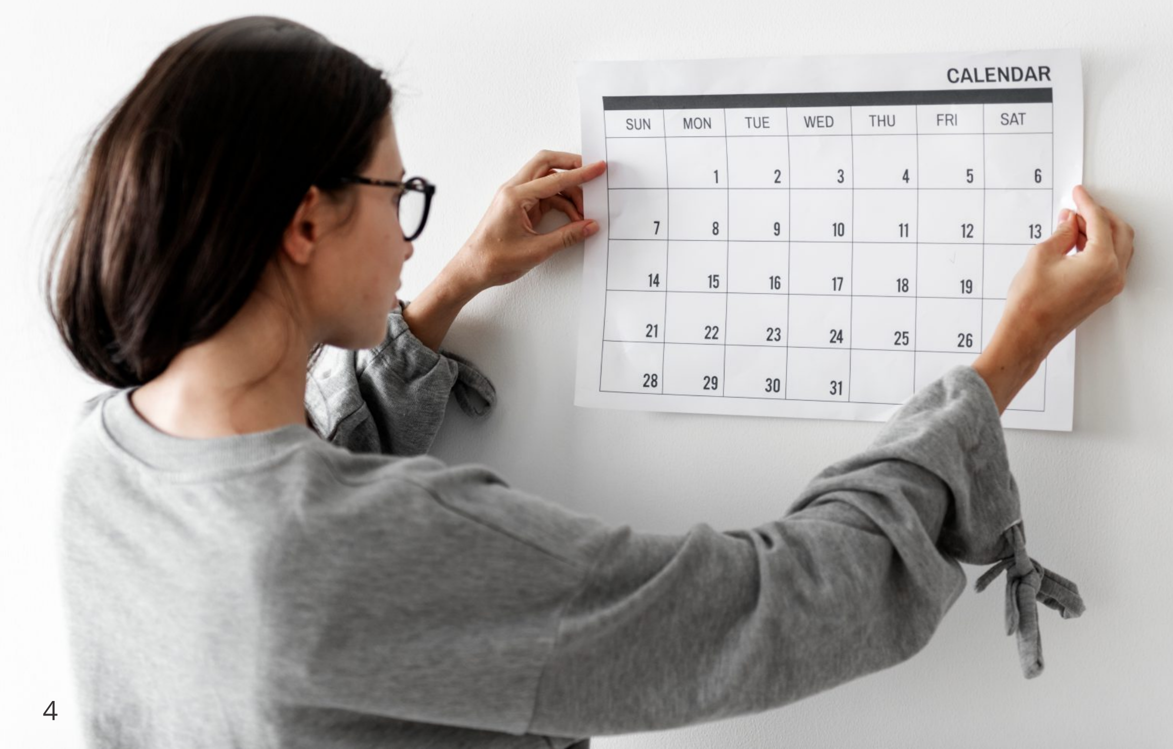
MTD – Digital Linking Deadline for VAT Extended

The global coronavirus pandemic has affected many businesses, and in a bid to reduce some pressure on these organisations, HMRC have confirmed an extension to the deadline for implementing digital links between software applications used in making tax digital (MTD) for VAT.

Businesses will now have until their first VAT return period starting on or after 1st of April 2021 to put these links in place opposed to the earlier deadline of 1st of April 2020.

In a statement, HMRC said: 'We understand that the impact of Covid-19 is creating extremely difficult times for all, and we are committed to helping in every way possible all those businesses facing unprecedented challenges. Therefore, we are providing all MTD businesses with more time to put in place digital links between all parts of their functional compatible software. This means that all businesses now have until their first VAT return period starting on or after 1 April 2021 to put digital links in place'.

According to research conducted, 'almost 42% of professionals were not ready for the next phase in digital taxation'. For many businesses this is a welcome move as it gives them more time to prepare for the changes and begin the process of transformation.



Claiming Research and Development tax reliefs

Every day we come across small-businesses that have been missing out on thousands of pounds in tax relief which could have helped them survive the current crisis.

Research and Development (R&D) tax relief supports companies that aim to achieve advancement in their field not only by creating new products but even if they are improving or modifying an existing product, process or technology. For a successful R&D claim, you don't have to be inventing something brand new and it can be claimed even on unsuccessful projects, provided there was a degree of uncertainty when you started the project. Making a R&D claim now could help with short-term cash flow potentially benefitting businesses throughout the pandemic.

The cash benefit of an R&D claim varies depending on if the company is loss-making or profitable in the year. On average the benefit received is 25% of the R&D project spend, however, it can vary between 14.5% and 33% if your company is loss-making.

How the relief works for Profitable SME's

ABC Consulting Limited is a software consulting company with 2 employees (including director) and made a profit of £40,000 in the tax year ending 30th June 2019. The corporation tax liability payable before the R&D claim @ 19% = £7,600.

The business incurred £25,000 in costs which mainly consisted of staff salaries and pension contributions and qualified as R&D expenditure eligible for the Small or medium sized enterprise (SME) R&D tax relief that enhances the R&D expenditure by 230%.

Calculation of Relief

Profit before R&D tax relief	£40,000
Deduct R&D Enhanced expenditure (£25,000 x 230% = £57,500) (Note: £25,000 of costs are already included in the profit figure so only £32,000 (£57,500-£25,000) deducted).	(£32,000)
Revised Profits for tax year 30th June 2019	£8,000
Corporation Tax Payable at 19% (£8,000 x 19% = £1,520)	£1,520

The company was able to save £6,080 in Corporation Tax (£7,600 – £1,520 = £6,080). i.e. 80% in corporation tax savings. In this crucial time the company was able to reduce their tax liability by 80% and received a relief of 43.7 pence per £1 of expenditure on R&D.

If ABC Consulting Limited was a loss making company, it could have effectively surrendered the loss to HMRC in exchange of 14.5% credit against the total enhanced expenditure. This means company could receive a cash grant of £8,337 (14.5% of £57,500), which is equal to 33p per £1 of R&D expenditure.

The company was also able to make an R&D Tax claim for the year ending 30th June 2018, and received a further £4,940 in Corporation Tax Relief for that year.

Relevant Life Insurance – Tax-efficient cover for small limited company owners

Relevant life cover is designed for company directors, contractors, and freelancers running their own limited business and who are too small to get group life insurance. It works like any other traditional life insurance, except that you don't need to pay for it yourself, your company buys the policy and pays the premiums. The policy pays your family a cash lump sum through a discretionary trust if you die.

What are the tax advantages of relevant life insurance?

The main advantages of relevant life cover are that it's enormously tax-efficient. In particular:

- The policy premiums are an allowable business expenditure and will lower your corporation tax bill and can save up to 51.5% tax for a higher rate tax payer.
- HMRC does not include relevant life cover under the definition of 'relevant benefit'; so, unlike other taxable benefits such as a company car, you don't need to pay Income Tax or National Insurance on it and therefore you won't need to show it on your company's annual P11D form.
- Any pay-out received is generally exempt from inheritance tax because it's paid through a specially-designed trust that keeps it separate from your estate.
- This type of policy is also tax efficient for the beneficiaries as any pay-out in the future will not be subject to income tax.

You may be thinking, to get all these tax benefits you'll need to hurdle off certain requirements. The good news is that requirements are surprisingly few and very concise. To buy relevant life insurance and get tax benefits:

- there must be an employer/employee relationship. In other words, the person whose life is insured must be someone you pay through HMRC's PAYE (Pay As You Earn) system. (So, you can't insure your spouse if they're only a shareholder, for instance).
- you can only insure employees up to the age of 75.

For more details please refer our blog or reach out to your dedicated account manager on **03300 88 66 86**.

Form 17 – Tax Efficient Rental Income Allocation between spouses

Mostly couples split the rental income between them equally, and are unaware that changes to this arrangement can be made without any immediate tax implications.

HMRC's default position is that income generated from a property owned between couples whether as joint tenants or tenants in common, needs to be split 50/50. But where the couples have unequal income tax rates, it may make sense for the couples to split the rental income in a different ratio to reduce the overall tax liability, by transferring a greater share of the beneficial interest in their property to the lower rate taxpaying spouse or civil partner. Let's understand this with a practical scenario:

Ricky and Emily are married and living together. Ricky and Emily have always been basic rate (20%) taxpayers. Recently, Emily left contracting and has now moved to a permanent role with a salary that would fall in her additional rate tax bracket (45%). They jointly own an investment property and the beneficial interest in the property is Ricky 50% & Emily 50%. The rental income from the property is £20,000. If they continue to split the income 50-50, Ricky and Emily will each receive an income of £10,000 and will end up with tax liabilities of £2,000 and £4,500 respectively, the overall tax liability being £6,500.

Splitting rental income differently

Following the advice received, Ricky and Emily changed the beneficial interest in the property by creating a declaration of trust and now own the property as tenants in common in the ratio 99% - 1% respectively. They further make a declaration to HMRC of their unequal beneficial interests, using 'form 17'. This allows the couple to split the income in the ratio the property is held .i.e. £19,800 to Ricky and £200 to Emily and are taxed on their actual entitlement to income from the jointly held property.

Thus, in the above example, following a valid form 17 declaration, Ricky now pays tax (at 20%) on rental income of £19,800, and Emily pays tax (at 45%) on £200 and end up with liabilities of £3,960 and £90 respectively, total tax being £4,050.

Their overall income tax bill is therefore reduced by £2,450.

The form-17 process may appear straightforward. However, in practice, there are various other tax implications to consider, depending on the circumstances, like the change in beneficial interests does may not trigger capital gains tax for married couples and civil partners, though Stamp Duty Land Tax (SDLT) may arise if there is a mortgage on the property. Therefore, it is highly recommended that independent professional advice is sought before undertaking the transaction.

Optimum level of Salary and Dividend combination for 2020/21

It's not a hidden fact that majority of the personal service companies and family companies take a small salary and extract rest of the funds as dividends. This strategy has been used for a number of years, and till date is considered the most tax efficient way of extracting profits from the company. Please note that everyone's personal circumstances are different, and the below options may not be commercial or tax efficient, if you have other income like property income, interest, etc. or need to apply for mortgage.

For the tax year, 2020/21 there has been no change in the personal allowance (£12,500) and basic rate threshold (for England, Northern Ireland and Wales), which means a total income of £50,000 is available to withdraw under the basic rate band. There are broadly two options:

Option 1- For those who wish to pay National Insurance Contributions (NI) or have an additional employee in the company.

You can pay a monthly salary of £1,042 (£12,500 per annum), this would leave £37,500 remaining in dividends to withdraw under the basic rate threshold. The amount of personal tax on this would be £2,663, giving a net monthly take home of £3,915.

The key benefit here is that if there is more than one employee in the company, due to the employer's allowance of £4,000, the company can save £289 more than in option 2 given below.

Option 2 - No National Insurance Contributions or only employee in the company

You can take a monthly salary of £791.67 (£9,500 per annum), this would leave £40,500 to withdraw as dividends under the basic rate threshold. The amount of personal tax payable on this would be £2,663, giving a net monthly take home of £3,945.

The benefit of this option is that no Employee NICs is due, but company will pay tax deductible Employer's NI of £98.26, because the threshold for employer's NI contribution is £8,788 for the tax year 2020/21. The take home pay will still be higher than paying a salary of £8,788.

The above options are based on only taking dividends up to the basic rate threshold, any further dividends would be taxed at 32.5% or 38.1%.

Key Dates and Deadlines for May

1st May 2020
- Payment of corporation tax for accounting periods ended 31st July 2019.

3rd May 2020
- Deadline for submitting P46 (Car) for quarter ending 5th April 2020.

7th May 2020
- Due date for VAT returns and payment for 31st March 2020 quarter. DEFERRAL AVAILABLE

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

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

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

31st May 2020
- Corporation tax return (Filing deadline for corporation tax return self-assessment form CT600 for period ended 31st May 2019 to be submitted to HMRC).
- Companies House should have received accounts of private companies with 31st August 2019 year end.
- Give a P60 to all employees on your payroll.

Awards & Accreditations

BRITISH ACCOUNTANCY AWARDS 2017 & 2018 **WINNER**

Independent Firm of the Year South-East, England

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