DNS Accounting Group

TAX TIPS & *News*

This issue includes updates and news on...

Tax Tips and questions

Newsletter October 2020

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

Chancellor Rishi Sunak is managing a crisis that to be fair must be seen as the hardest job in the world or at least one of the hardest. His intention is to save jobs and protect the economy whilst at the same time providing fuel for the economy, yet he also needs to support individuals without work and businesses without any income, which means that any "wriggle room" is severely limited. The imminent challenge facing him as I see it is the possible outcome of negative interest rates, as this would mean that the government's interest-repayment burden would increase. Postponement of the Autumn Budget shows just how sensitive, critical, and challenging the situation is. Meanwhile, the government also needs to focus wholly on the public health challenges presented by the coronavirus pandemic.

The Job Support Scheme pays around one-fourth of the job retention scheme. The introduction of this new scheme gives a clear indication that the Treasury's funds are limited and that it cannot continue to subsidise businesses and employees indefinitely. The Chancellor has very smartly introduced this scheme without anyone knowing in absolute terms how much less this new form of support is actually worth.

With the government doing their bit (albeit though it may not seem to be enough), we have duty to ourselves, to our families and to the nation as well, to offer our best efforts to help the recovery. As entrepreneurs now, we should be the best versions of ourselves and take our roles as part of the solution. By helping to create jobs, we can play our part in the history of how entrepreneurs helped create jobs and restore the economy during and after the Covid-19 pandemic in the UK and in the wider world.

DNS Accountants have registered to be a provider for the government's new Kickstart scheme; this makes us what is known as a representative or a Kickstart Gateway. Businesses can recruit a minimum of 30 employees to these funded six-month placements for 16–24 year olds. The Kickstart scheme provides generous support, giving businesses the opportunity to help build a young, skilled nation. We should not be shy about playing our part. We will be in touch soon with the kind of roles we can help you fulfil, but meanwhile please let us know if you are interested in being part of this scheme. Are you ready to help the young by enabling them to build new skills? Are you ready to play your part in rebuilding the nation? It could help you expand your business too.

As an Accountant, I ask myself the question almost daily how Chancellor Rishi Sunak will ever be able to balance the books. The way I see it, he will probably try policing compliance more aggressively and increase taxes. Therefore, I would recommend being prepared for the announcement of some stringent measures in the near future. I would predict that these will include tighter policing of compliance and tax hikes, with the intention of filling the gaping hole this crisis has left in the UK economy. If we fail to fill the gap it is highly likely that, with Brexit imminent, Britain will lose the value and credibility of the pound. I do not mean to be overly pessimistic, but I very much hope we will rise to this challenge together and get to work as one powerful force in the face of it.

There is plenty to catch up on in this month's newsletter, so please continue reading, enjoy, and I hope you find it informative. Please stay safe, comply with the restrictions and help wherever you can.

This issue includes updates and news on...

- Chancellor Rishi Sunak's winter plan for the economy
- The Kickstart Scheme for employers
- HMRC's inheritance tax investigations hit a record high
- Are tax increases likely in the coming years?

Tax Tips and questions

- What are the VAT consequences of selling a business as a going concern?
- Which is the correct SIC code to use for a property SPV or a property company?
- Can a company pay for degree-level courses or cover university fees for employees?
- What redundancy payments are employees entitled to?

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

Kind regards,

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

Chancellor Rishi Sunak's winter plan for the economy

On Thursday 24 September 2020, Chancellor Rishi Sunak announced a package of measures designed to continue to protect jobs, provide more certainty to businesses and help individuals across the UK who have been impacted by the coronavirus crisis.

Below are the key points of the Chancellor's plan:

1. The Job Support Scheme is a new initiative that starts on 1 November 2020, which requires employees to work a minimum of 33% of their normal working hours. For every hour not worked, the employer and the government will each pay one-third of the employee's standard pay. The government contribution is capped at £697.92 and employers will be reimbursed for their contribution.

2. The Self-employed Income Support Scheme (SEISS) will be extended, and comprise two taxable grants. The first grant will pay 20% of the average monthly trading profits, capped at £1,875, and cover the period November 2020–January 2021. The second grant to cover February–April 2021 will be reviewed in due course.

3. Tax cuts and deferrals, the reduced rate VAT (@ 5%), applicable to the hospitality and tourism sectors, has been extended from its original end-date of 12 January 2021 to 31 March 2021.

Businesses that deferred VAT payments due in March–June 2020 will have the option to spread the payments over 11 equal instalments without having to pay any interest.

Taxpayers with a self-assessment liability up to £30,000 can use the Time to Pay arrangement to agree to pay over an additional 12 months for liabilities due on 31 January 2021.

4. Pay as you grow is the helping hand for businesses that borrowed money under the Bounce Back Loan Scheme. These businesses will be given the option to repay their loan over a period of 10 years and will be able to temporarily move to interest-only payments for periods of up to six months (this can be done three times), or pause repayments entirely for up to six months (after six payments have already been made).

Additionally, the government has extended the deadline for all the loan schemes to the end of the year. The launch of a new successor loan programme for businesses is set to begin in January 2021.

The Kickstart Scheme for employers

The Chancellor announced the Kickstart Scheme in July 2020 and it opened for applications on 2 September 2020. This is a government initiative designed to help young people into work and encourage them to develop their skills and experience to improve their future employment prospects.

Highlights of the Kickstart Scheme are:

- Six-month work placements for young people age 16–24 who are claiming universal credit.
- For employers creating the placements, the government will fund 100% of the national minimum wage for 25 hours a week including the associated national insurance contributions and minimum employer auto-enrolment pension contributions.
- In addition, the government will pay employers £1,500 per placement to cover set-up costs, support and training.

Any employer regardless of size can apply under the scheme, but only those creating a minimum of 30 placements can make a direct application. Businesses that do not have the required employee numbers will need to work with a representative or Kickstart Gateway, which will pool the requirements from various employers and apply for the scheme on their behalf.

The representative or Kickstart Gateway will:

- Gather information from you about the job placements you would like to offer;
- Use this information to submit an online application on your behalf;
- Pass on the relevant payments made by DWP to you.

We encourage all business owners to use the scheme, not only to help revive the economy but also to help train our youth, who after all do represent Britain's future. You could also see it as an opportunity to expand your business.

DNS is acting as a representative or Kickstart Gateway for our clients. To find out more about how we can help please speak to your account manager or call us on 03300 88 66 86.

More details about the scheme can be found here.

HMRC's inheritance tax investigations hit a record high

Inheritance tax (IHT) rules are among the most misunderstood tax rules, so it is not surprising that they are leading innocent families to become the subject of investigations with the tax authorities and that their complexity leaves families exposed to mistakes, which frequently lead them into further trouble.

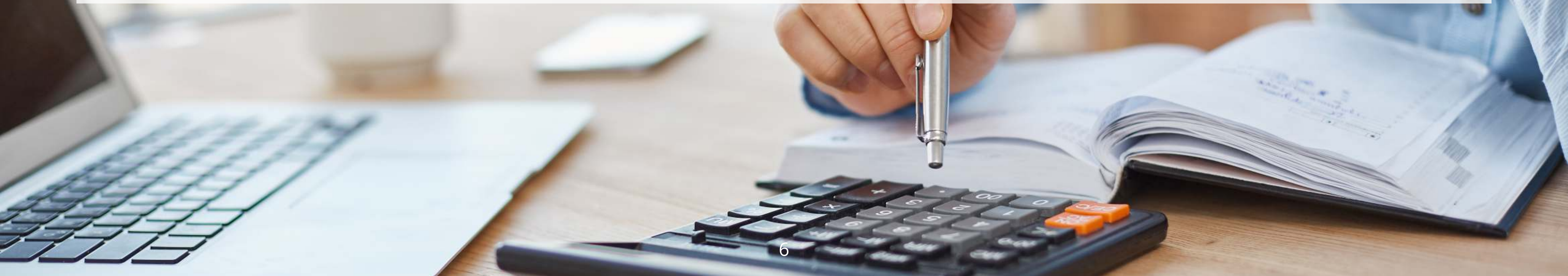
As recent published figures show, HM Revenue and Customs' revenue from inheritance tax investigations hit a four-year high: HMRC took in £274 million from 5,638 IHT investigations in 2019–20, which is the highest sum in the last four years. This adds up to an average yield of almost £50,000 per case, an increase of more than one-fifth over the past three years. HMRC now investigates approximately one in four estates that pay IHT.

It is common for families dealing with their own probate and estate administration to misinterpret the rules, particularly around the gifting of homes or certain other valuable assets for tax purposes. Instabilities in the housing market and on the stock markets are other areas likely to catch people out when valuing their estate. HMRC is mindful that many people will try to exploit the impact coronavirus has had on the economy to contend that asset values have fallen, so watch out, therefore, as this means HMRC will be looking to challenge any cases where the fall is anomalous.

It is often argued that only taxpayers who are ill advised or unprepared end up paying IHT. There is some truth in this, for with careful tax planning any taxpayer can avoid an IHT bill, and save 40% of their accumulated wealth.

We recommend that all taxpayers assess their wealth and have plans in place to ensure their estate is IHT-proof.

DNS recently organised an Inheritance Tax Planning webinar in conjunction with James Bland from Granite Tax, a recording of the webinar can be found here.

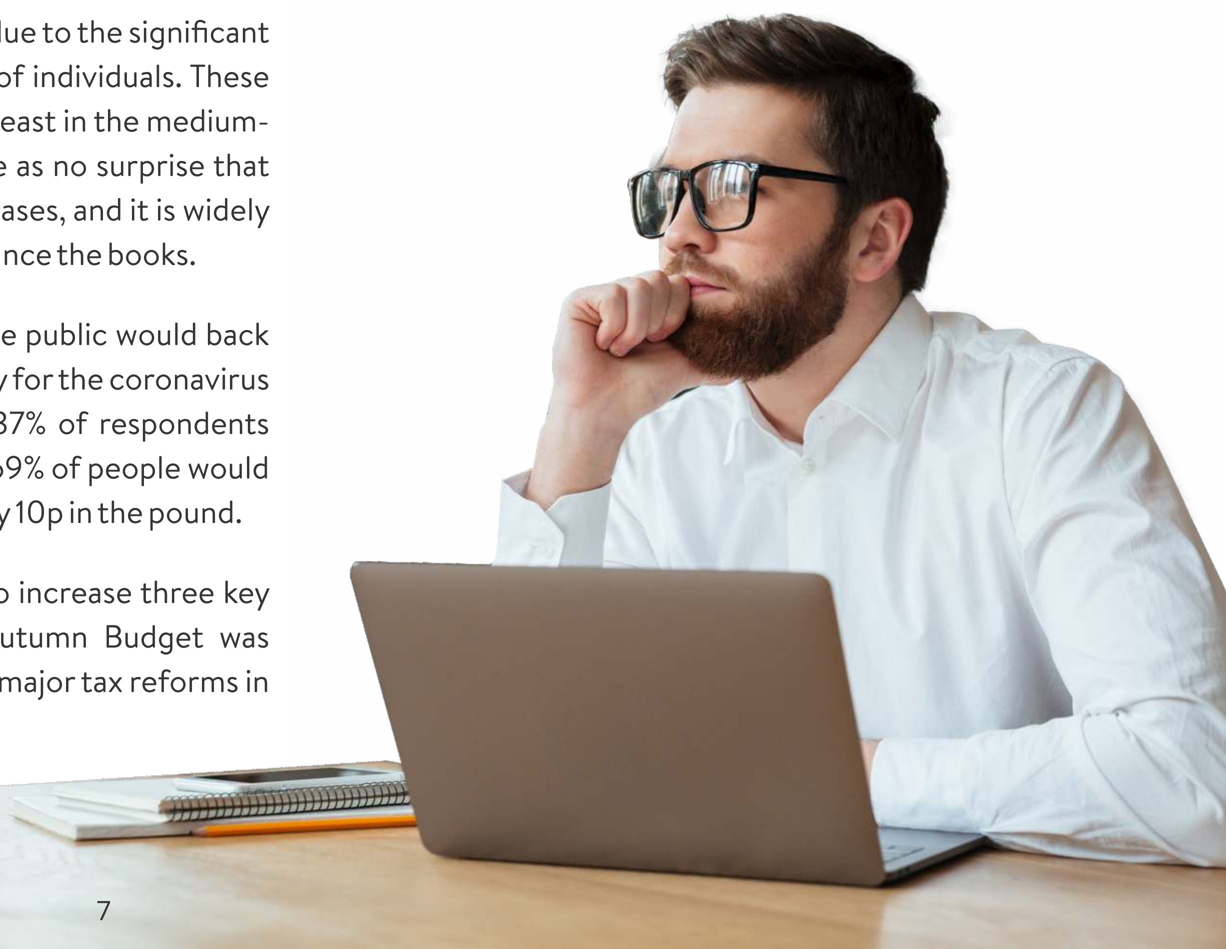


Are tax increases likely in the coming years?

Governments worldwide are spending huge sums to tackle both the economic and public health impacts of the COVID-19 pandemic. Governments everywhere more or less are under the same pressure to work out how these stimulus packages are to be paid for, especially in the knowledge that the worst effects of the coronavirus crisis could still be to come.

The UK Treasury estimates it will have a deficit of £337 billion ($445 billion) this financial year, which amounts to more than 15% of the UK's economic output. In comparison, the deficit following the 2008 financial crisis was around 10%, according to the Institute of Fiscal Studies. The big question remains: Which approach will the government opt for to reduce the extraordinary level of national debt resulting from the coronavirus pandemic?

In the coming years, tax revenues are likely to drop significantly due to the significant losses carried forward by businesses and the reduced earnings of individuals. These factors alone provide obvious justifications for tax increases, at least in the medium-to long-term, if not in the short term. It therefore should come as no surprise that Chancellor Rishi Sunak has recently refused to rule out tax increases, and it is widely accepted that changes to taxation will be required in order to balance the books.



A recent poll by the think tank Demos has found that 58% of the public would back increasing income tax for everyone by 2p in the pound to help pay for the coronavirus crisis, while raising the personal allowance to £20,000. Just 37% of respondents supported the idea of a 1p in the pound rise for everyone, while 69% of people would support raising income tax on earnings over £100,000 per year by 10p in the pound.

Earlier in the year, the Chancellor indicated that he had plans to increase three key taxes in the Autumn Budget, but then unsurprisingly the Autumn Budget was cancelled. It is still highly probable that we will experience some major tax reforms in the next Budget.

What are the VAT consequences of selling a business as a going concern?

Generally, when you sell the assets of a VAT-registered business, or a business that is required to be VAT-registered, it will be subject to VAT. However, if you sell the assets as part of a business or as part of the whole business as a going concern then, subject to certain conditions, no VAT is chargeable, as it is deemed that no supply has taken place for VAT purposes.

The following conditions are mandatory in order for what is known as a transfer of a going concern (TOGC) to apply:

- The assets must be sold as part of a 'business' as a 'going concern'.
- The purchaser must intend to use the assets, or the assets must be used in continuation of the same type of business.
- On acquiring the assets, the purchaser must also be a person liable for UK tax or be already registered for VAT, whereby a transferor must also be a taxable person, because they are VAT registered or liable to be VAT registered.
- There must be no substantial break in trading before or after the transfer.
- In the case of a partial transfer, the 'part' must be capable of being a separate operation.
- There must not be a series of instantly repeated transfers of the business.
- There are additional conditions in relation to transactions involving the transfer of land.

A TOGC is considered as 'neither a supply of goods nor a supply of services' and is therefore outside the scope of VAT, meaning, therefore, that no VAT is chargeable. TOGC creates a significant cash flow advantage for both parties because it is ignored as a supply for VAT purposes.

More information on the TOGC provisions can be found here.

Which is the correct SIC code to use for a property SPV or a property company?

Many landlords have been opting to use a limited company or Special Purpose Vehicle (SPV) as their preferred structure to invest in property in line with Section 24 – the finance cost restriction. SPVs are considered the more tax-efficient option because these enable the taxpayer to claim tax relief on the interest, organise remuneration and calculate profits against the methods that are available to any other individual taxpayer.

For those who are not aware, an SIC code is a numbered code that describes the nature of your business at Companies House and indicates which industry it trades within. When you set up your SPV, you must choose the relevant SIC code for your business and then you must always use it when submitting your accounts.

Practically speaking, there are four SIC codes to choose from: 68100, 68209, 68320 and 68310, and below is a brief explanation of their classification.

- SIC code 68100 relates to the buying and selling of any real estate your company owns. This would be the appropriate SIC code for your company to use when flipping and/or trading, or if you plan to buy properties for resale.
- SIC code 68209 relates to the letting out and operating of leased real estate owned by your company. This code should be used, therefore, when you are buying a property to hold on to as an investment (single BTLs or HMOs). In other words, this would be the appropriate SIC code for buying and holding property and renting it out.
- SIC code 68320 relates to the management of real estate on a fee or contract basis. So, for example, if you were planning to set up your own property management company for a fee, then this would be the appropriate SIC classification for your company to use.
- SIC code 68310 is for real estate agencies. So, if your company acts as an agent for investors and you source deals or packager them, this is the appropriate SIC code for your company to use.

Note: A company's SIC code can be changed at any time and be amended when you next file your Confirmation Statement.

As you can see, these codes very effectively indicate to Companies House what a business is going to do or is doing from a tax point of view. The maximum of four SIC codes can be used by any one company.

SIC codes also play a vital role with lenders and finance providers, because they inform lenders at a glance what activity a property company is involved in, and this helps them to evaluate whether to lend to your business or not.

For further advice and assistance on choosing the right SIC code please reach out to us on 03300 88 66 86.

Can a company pay for degree-level courses or cover university fees for employees?

Investment in improving your own skills or your employees can give your company the crucial edge when it comes to pitching for new contracts or business. However, before funding fees or courses via your limited company, it is important to know what you can – and cannot – claim as a deductible expense.

An individual may be able to use their limited company's cash to pay for university fees or degree courses, but HMRC is unlikely to allow the cost of the university course fees as a deductible expense.

Generally, you will not be able to claim tax relief for studying for a university degree or attending a residential course where the new skill or discipline cannot be shown to be relevant to the services your business currently offers. In this case, you may be able to pay the fees through the company and claim it as a capital expense, but you will not be able to claim tax relief.

The key points for individuals contemplating multi-year study leave are to consider what happens to their company, and what happens to the money in it. "Assuming there are sufficient funds, an individual can use their limited company to pay an income via dividends indefinitely, even if it is not trading."

It is also worth noting that just because an individual has decided to take study leave does not necessarily mean their limited company has ceased trading: "Ideally, individuals during this situation should continue to take on small projects whilst studying, or during vacations between academic terms accepting longer contracts, if that's feasible." In other words, the company could have a marginally reduced income but continue to operate as normal in every other aspect, which includes running genuine expenses through the business and withdrawing the profits via dividends.

However, if the person who is taking study leave runs a one-man-band company and intends to devote the entire three years or more to study, and does not intend trading during this time to generate fee income, then, if there is a substantial cash balance in an interest-bearing account, this will generate investment income which could jeopardise the company's trading status.

In summary, HMRC's operational policy shows that the fees for a three-year university degree course would not qualify for tax relief.

Note: HMRC's rules on work-related training and associated incidental expenses are quite generous. Therefore, in as far as you or your employee can justify the direct advantage to the business arising from the training or show that it is wholly or exclusively for the purposes of trade, then the associated costs and expenses will qualify for a corporation tax deduction.

What redundancy payments are employees entitled to?

Here, we look at what you can expect to pay out financially when you make an employee redundant.

If the employee has been with you for two years, she or he will be entitled to statutory redundancy pay. This is worth a maximum of £16,140 (£16,800 in Northern Ireland), although few people get that much. The payouts are also capped at an income of £538 per week.

Payouts are based on the employee's pay, age and the length of time they have been employed in the job. If the employee is below the age of 22 they are entitled to half a week's pay for each year of employment; an employee aged 22–40 is entitled to a week for every year they have been in the job; and for employees over the age of 40 this rises to 1.5 weeks' pay for every year they have spent in the job. The maximum length of service for payouts is 20 years.

Is a redundancy payout taxable?

The basic rules allow employees to receive up to £30,000 as a 'qualifying termination payment' free of tax and national insurance. This amount includes any statutory redundancy pay to which they are entitled. If the payout is more than £30,000, then anything over the £30,000 limit is taxable.

When determining the income tax and NIC treatment of a termination payment, you need to consider whether the payment is:

- Contractual or a specific type of payment which is taxable and liable to NIC (e.g. a restrictive covenant);
- Exempt (e.g. in relation to disability or death);
- A payment in lieu of notice (PILON);
- Statutory or an enhanced redundancy payment;
- Ex-gratia (i.e. compensation for loss of employment and not a reward for past performance).

Once you have established whether the payment is covered by an exemption or subject to income tax and NIC, either fully or in part, only then is it possible to assess whether any leftover elements of the payment need to be reviewed under the new termination rules.

Note: The new NIC legislation, which took effect from 6 April 2020, will ensure that any termination payment in excess of £30,000 is chargeable to income tax and will levy a Class 1A NIC liability at 13.8% on the balance excess above £30,000. A charge to Class 1A NIC instead of Class 1 NIC means that the burden for NICs lies with the employer and not the employee.

Additionally, it should be borne in mind that while a director can be made redundant in the same way as any other employee, it is particularly important to establish if the director's redundancy qualifies as redundancy according to HRMC's rules. Be warned that HMRC will be paying particularly close attention to redundancy payments paid to directors.

Key Dates and Deadlines for October 2020

1st October 2020
- Due date for payment of Corporation tax for the year ending 31st December 2019.

5th October 2020
- Self Assessment registration to notify chargeability of income tax/capital gains tax for 2019/20.

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

14th October 2020
- CT61 payment;
- EC sales list – VAT.

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

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

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

31st October 2020
- Deadline for submitting paper self-assessment returns for personal tax;
- Corporation tax return (CT600) for filing accounts for the year ending 30th October 2019;
- Companies House deadline for filing accounts for the year ending 3rd January 2020.

Awards & Accreditations

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Investing in People Award & Client Service Award

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Investing in People Award
2020

accountingexcellence
FINALIST
Client Service Award
2020

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SHORTLISTED
2018

PRACTICEexcellence
SHORTLISTED
2017

The Contracting Awards2020
FINALIST

British Accountancy Awards
2019 SHORTLISTED

British Accountancy Awards
2018 WINNER

British Accountancy Awards
2017 WINNER

The British Accountancy AWARDS 2013
WINNER

The Contracting Awards2019
FINALIST

TOP 5
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2019

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Get in Touch

DNS ACCOUNTANTS

03300 886 686
info@dnsaccountants.co.uk
www.dnsaccountants.co.uk
DNS House, 382 Kenton Road, Harrow, Middlesex, HA3 8DP