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Regulated for a range of investment business activities by the Association of Chartered Certified Accountants

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NEWSLETTER

Data Protection Review and Privacy Policy – GDPR

As you are probably aware, there have been changes to the way personal data is processed and to this effect the Data Protection Act 2018 received its Royal assent on 23rd May. This replaces previous data protection legislation and incorporates the General Data Protection Regulation ("GDPR") which came into effect on 25th May 2018.

A full review of our Policies and Procedures has therefore been carried out and amendments have been made to incorporate the many aspects of GDPR. We can confirm that we will comply with those requirements in the way that we process and manage the information that we hold relating to our clients and their employees. Our IT contractors have worked with us to ensure that all of our IT systems are fully compliant and secure. Our paper documents are destroyed by a company specialising in confidential shredding and destruction.

We hope that this gives all our clients confidence that Mabe Allen takes the processing of client data seriously but if you would like more details, a copy of our Data Protection Policy documents, including our Privacy Notice, are available on our website: **www.mabeallen.co.uk**

JULY 2018

MTD is coming

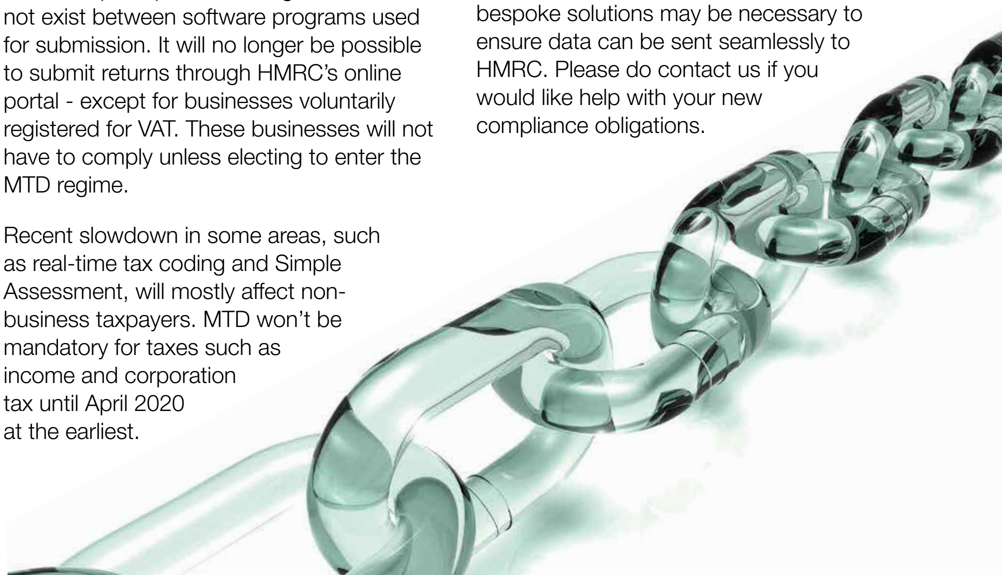
Making Tax Digital (MTD) is on the horizon for many businesses. It represents a momentous change in the way taxpayers keep records and submit information to HMRC.

MTD affects VAT first. For return periods starting on or after 1 April 2019, businesses operating over the VAT threshold (currently £85,000) must keep records digitally, using MTD functional compatible software. That's essentially software, or a combination of software and spreadsheets, which can connect to HMRC via an Application Programming Interface. VAT submissions will then be made direct from the digital records. Manual input will not be acceptable, although there will be a 'soft landing' period of 12 months where HMRC will not impose penalties if digital links do not exist between software programs used for submission. It will no longer be possible to submit returns through HMRC's online portal - except for businesses voluntarily registered for VAT. These businesses will not have to comply unless electing to enter the MTD regime.

Recent slowdown in some areas, such as real-time tax coding and Simple Assessment, will mostly affect non-business taxpayers. MTD won't be mandatory for taxes such as income and corporation tax until April 2020 at the earliest.

Going forwards

HMRC are currently carrying out a VAT pilot and income tax pilot for small businesses and landlords. Whilst not necessarily advantageous to participate in these, this is definitely the time to consider the next steps on the road to MTD for you and your business. Businesses currently keeping manual records would be well advised to make the transition to digital record keeping, and businesses already digital will need to check when their software provider will meet MTD requirements. Upgrades or bespoke solutions may be necessary to ensure data can be sent seamlessly to HMRC. Please do contact us if you would like help with your new compliance obligations.



IR35 – change ahead?

IR35 is very much in the news. Over the last months, there have been several tax tribunal cases involving IR35 contractors – one high profile case going against BBC Look North presenter, Christa Ackroyd, and another going against HMRC, in favour of an IT contractor who had worked on the Universal Credit programme for the DWP.

HMRC have found it difficult to enforce their view of the applicability of IR35 - or 'off-payroll working' legislation, so the government is consulting on how to increase compliance. The consultation hinges on the premiss that 'Current legislation is not working effectively. The cost of non-compliance in the private sector is high and growing - projected to increase from £700 million in 2017/18 to £1.2 billion in 2022/23.' Looming large is the question of whether rules brought in for public sector engagers in 2017 should be adapted for private sector engagers.

IR35 rules were introduced in 2000 to apply in cases where someone would have been treated as an employee, had they not been working through a limited company in which they had a 'material interest.' According to HMRC, they are 'Intended to stop individuals avoiding employment taxes by working through their own company. This affects contractors including IT consultants, management consultants, and project managers.'

In April 2017, changes introduced in the public sector made the end user responsible for making a decision as to whether IR35 rules apply, and then deducting and paying tax due. HMRC believe this has increased compliance in the public sector - as well as raising an additional £410 million in income tax and National Insurance contributions. HMRC research suggests public sector employers have not taken an unduly cautious approach, generally assessing employment status on a case-by-case basis.

No firm decision about extending IR35 decision-making responsibility to the private sector has been made. HMRC also emphasise that 'The fundamental principles of the off-payroll working rules - that the employment status test determines who should be taxed as employees' are not currently up for discussion. The focus is simply how to facilitate compliance in the private sector in the light of results from the public sector reforms.

Whilst HMRC estimate that two thirds of those working through a company are genuinely self-employed, and outside the scope of the rules, decisions about employment status can be very difficult. The rules are complex, involving consideration of such criteria as mutuality of obligation, the degree of control exercised, and the right of substitution. If you would like to review the management of your business in the light of current developments, we would be happy to advise.

New tax year, new tax plans

As we head into the season to submit tax returns for the tax year ended 5 April 2018, it's a good time to think about saving tax in the current tax year. There are many points to consider as you plan for the future, and we will be pleased to advise in areas of such perennial importance as the following:

Disposing of capital assets

Careful planning is essential when it comes to disposing of capital assets such as a second home, jewellery, shares, a business or antiques and works of art. An individual can make capital gains up to the annual exemption limit without paying capital gains tax, and each spouse/civil partner will have their own limit. For 2018/19, this limit is £11,700. It can't be carried forward to a future tax year, and can't be transferred to anyone else, including a spouse or civil partner. Thus it can sometimes be advantageous to transfer *assets* between spouses or civil partners to ensure that each individual's annual exemption is used.

Making the most of your pension

The annual allowance, which sets a cap on the amount you can contribute to a pension and still get tax relief, is £40,000 in 2018/19. Contributions in excess of this are potentially charged to tax on an individual as the top slice of income. There are, however, restrictions on the annual allowance available for those with adjusted annual income over £150,000, so that it can potentially be reduced to a minimum of £10,000.

However, unused annual allowance can often be carried forward for up to three years. This means unused allowances for the three years prior to the current tax year can be used this year. The remaining allowance for 2015/16 would therefore need to be used by 5 April 2019, but can only be utilised after using the annual allowance for the current year.

Using your ISA allowance

Individual Savings Accounts (ISAs) can make a tax-efficient investment, since income from ISA investments is exempt from income tax, and capital gains made on investments held in an ISA are exempt from capital gains tax. The maximum you can save in ISAs for 2018/19 is £20,000. This can be split between different ISAs, though funds may be invested in only one of each type per tax year. An ISA allowance can't be carried into the next tax year, so it's worth planning now to take advantage of it.

There are now quite a range of ISAs on offer. They include the Innovative Finance ISA, designed for peer to peer lending - essentially lending that cuts out a bank. These usually offer higher returns because of the higher risk. An ISA portfolio could include a small subscription in a higher risk ISA like this.

Adults under the age of 40 might want to consider the Lifetime ISA. Here up to £4,000 per annum can be invested. This counts towards the overall annual ISA limit, but the advantage is that the government will put in a 25% top up, up to a maximum of £1,000 per annum. The Lifetime ISA is designed to fund the purchase of a property for a first-time buyer to live in (not as a buy-to-let), or to save for later life. Where two first-time buyers are buying a home together, each buyer – if eligible – can take advantage of the Lifetime ISA bonus. There are various conditions, including a charge for early withdrawals.

If you are considering a capital disposal this tax year, or considering investment or pension choices, we would be delighted to help you structure your affairs tax efficiently.

Buying property across UK borders

Now that Wales and Scotland each has its own property tax regime, the rules affecting the purchase of property have changed. Close attention to detail will be needed to ensure that correct procedures are adhered to. In some cases, the purchase of land and property may now qualify as a 'cross border' transaction, and in this case, special rules apply.

The newest development in devolved property tax is very recent, and affects Wales, where SDLT was replaced by Land Transaction Tax (LTT) for purchases on or after 1 April 2018. In Scotland, Stamp Duty Land Tax (SDLT) was replaced by Land and Buildings Transaction Tax (LBTT) for purchases on or after 1 April 2015.

The existence of multiple UK tax regimes gives rise to the possibility that a property transaction may now incur liability to more than one tax. This could happen in one of two ways. It could arise where a single property, comprising land on both sides of the English-Scottish or English-Welsh border, is purchased. This could be a farm straddling both sides of a border, for example.

Liability could also arise where there is a 'multiple property transaction.' This could be the case where there is a single agreed amount of consideration for the purchase of two or more property interests in different UK tax jurisdictions – whether that's as a single transaction or a number of connected transactions. So liability could arise via a single transaction whereby a purchaser acquires a business which includes three shops – one in Wales, one in Scotland, and one in England, for example, or where a holiday accommodation business, comprising properties on both sides of say, the Scottish border, is purchased.

In eventualities such as these, the total consideration must be divided or apportioned on a just and reasonable basis to determine the appropriate consideration for the part in each UK tax jurisdiction. As with any tax matter, it is open to the relevant tax authority - HMRC, the Welsh Revenue Authority (WRA) or Revenue Scotland (RS), to challenge any return made or enquire into the basis on which apportionment was made.

Example

A farm in Powys is being sold. It comprises 20 fields, a farmhouse, bungalow and agricultural buildings. Nine fields are wholly in England, nine wholly in Wales, and two in both England and Wales. Here apportionment would need to take into account where buildings are located and the nature of the buildings, as well as any parts of the land that may be more valuable because of location, access, use or development (such as field drainage).

Where the consideration (as apportioned) is more than the limit for notification to the relevant tax authority, a return will be needed. Potentially, then, up to three tax returns may be needed – for SDLT, LBTT and LTT - with payment made to three different tax authorities: HMRC, the WRA and RS.

This is a complex area, and we are more than happy to advise, for example in relation to the apportionment of consideration. This may be especially relevant if there is any question of a claim to private residence relief for capital gains tax purposes being involved. Please do not hesitate to contact us for further information here, or on any other tax aspect of a property transaction.

Employee rights: shared parental leave

Following suggestions that less than half the public is aware of the scheme, HMRC are promoting awareness of Shared Parental Leave (SPL) rights among employees.

SPL and Statutory Shared Parental Pay (ShPP) provide flexible childcare options in the first year after the arrival of a new baby, enabling both parents to share childcare, and giving mothers the ability to go back to work sooner. Parents adopting or involved in surrogacy arrangements are also eligible.

In practice

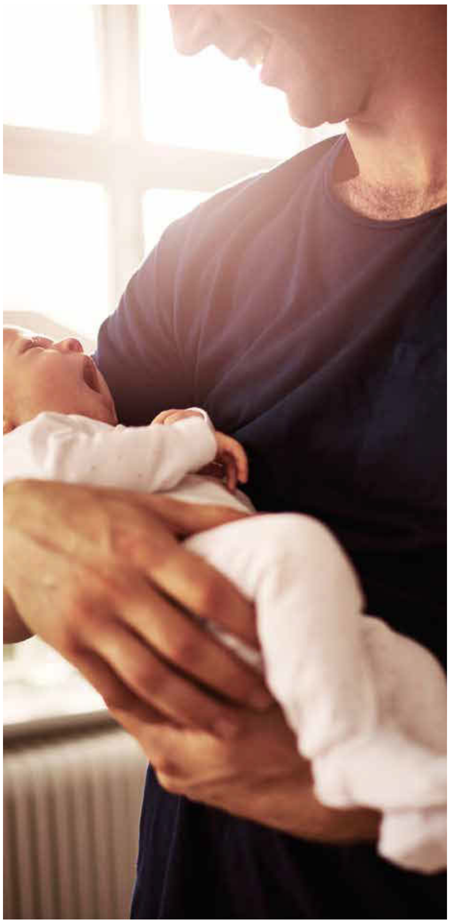
SPL involves quite a lot of admin for participating parents - and their employers. Parents, for example, will have to provide the employer with specific information in the form of written notices and declarations. Gov.uk offers model forms, though as a matter of convenience, employers may want to consider creating their own bespoke forms. There is however no legal requirement for them to do so, nor for employees to use them. The Department for Business, Energy and Industrial Strategy report that one question commonly asked is 'Will my employer know if I qualify for SPL?' Employees can be advised that an employer is not in a position to answer this until an employee tells them - because to be eligible, **both** parents must meet certain conditions.

To qualify, an employee must generally:

- have worked continuously for the same employer for about 40 weeks
- intend to share responsibility for childcare with the other parent
- to claim ShPP, earn at least the lower earnings limit £116 (2018/19) or £113 per week (2017/18), over an eight-week period.

The other parent must also satisfy work and earnings criteria.

Employees should be advised to use the Eligibility Checklists on gov.uk **goo.gl/dCicPz**



Income or gains from abroad?

There are new tough penalties on the horizon for UK taxpayers who haven't told HMRC about foreign income or gains on which UK tax may be due.

Story so far

In 2016, HMRC began a new initiative to bring taxpayers up to date if they hadn't declared all their income or gains arising outside the UK. As part of this, the 'Worldwide Disclosure Facility' was set up for taxpayers to notify HMRC about any outstanding liability.

There are three key developments making the initiative particularly important just now. One is HMRC's imminent ability to access financial information from over 100 different countries under new international information-sharing powers. The 'Common Reporting Standard' gives access to information about bank accounts and investments in jurisdictions worldwide.

The second is the 'Requirement to Correct' (RTC). The purpose of the RTC legislation is to require those with undeclared offshore tax liabilities to correct the position by 30 September 2018. The liability could relate to income tax, inheritance tax or capital gains tax, and applies to non-compliance that took place before 6 April 2017. It means that HMRC can go back to the tax year 2013/14, or 2011/12 if the failure to disclose is 'careless.' Where the loss of tax is due to 'deliberate' behaviour, HMRC may be able to go back further than this. There is no set route for making a disclosure, but a person could, for example, comply with the RTC by using the Worldwide Disclosure Facility.

Finally, from 1 October 2018, a much tougher penalty regime for failure to correct is brought in, with a minimum penalty of 100% of the tax owed, in addition to the outstanding tax and interest on overdue tax.

Who and what is affected?

Individuals, partnerships, trustees or non-resident landlord companies are all within the scope of these rules.

UK residents are liable to UK tax on their worldwide income and gains, and a wide variety of common situations can potentially give rise to tax consequences in the UK. These include letting out a property abroad, such as a holiday home, or receiving income from a share in a family business overseas. Receiving income from an offshore bank account is another common example – and

'offshore' in this context includes the Channel Islands, Isle of Man and Republic of Ireland, the EU or anywhere else in the world.

The tax treatment of offshore income is complex, but acting with professional assistance should always ensure a better outcome. Please do not hesitate to contact us for advice.

Save energy, save tax - with Enhanced Capital Allowances

Did you know that a business which invests in energy-saving plant or machinery may be able to take advantage of an HMRC tax break?

Saving tax

For many businesses, capital expenditure will be covered by the Annual Investment Allowance (AIA). AIA gives full tax relief for capital expenditure in the year of purchase, and covers most plant and machinery, up to an annual limit of £200,000. Where expenditure exceeds the AIA, the balance is dealt with via an annual writing down allowance (WDA). WDA is currently 18%. There are however, some types of expenditure which are only eligible for WDA at 8%. There are also separate rules for cars, which do not qualify for AIA.

But there can also be occasions when a business can benefit from Enhanced Capital Allowances (ECAs) - although the regime is a little less favourable now than it was. ECAs are designed to facilitate investment in energy-efficient equipment, the initial cost of which can be greater than other products. ECAs provide accelerated tax relief by giving a 100% capital allowance in the year of purchase. A business can therefore benefit where total capital expenditure is more than £200,000. ECAs may also have the effect of turning an accounting profit into a tax loss. Where an ECA claim by a company creates or increases a tax loss, then the loss attributable to ECAs can be surrendered for a cash credit in some circumstances. Until 31 March 2018, the cash credit was 19%, but is now two thirds of the CT rate in force for the accounting period.

Saving energy

ECAs are available on the purchase of specific high-performance energy-efficient equipment, such as boilers, electric motors, air conditioning and refrigeration systems. Water-efficient technology products such as water-efficient taps, toilets and industrial cleaning equipment are also eligible.

The Energy Technology List identifies particular products which perform to ultra-high levels of energy efficiency. It is investment in these products which qualifies under the scheme. The list can be found here **goo.gl/N7q2r1** The Water Technology list consists of 14 categories of water technologies on which ECAs can be claimed and can be found here **goo.gl/j2WfrL**

Your business choices

The list of assets eligible for ECAs is updated frequently. Claims can fail through misinterpretation of exactly which products qualify, and it is important that the list is checked when relevant expenditure is made. ECAs are claimed via the corporation tax return or income tax return, and records of any purchases or installation costs should be kept. Please do contact us at an early stage so that we can guide you through a trouble-free claim. And whatever the nature of your capital expenditure, we would be delighted to help you take an overall look at tax and profitability in your business, working out the best time to invest in new equipment.

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Making your business cyber secure

Cyber security is an increasing problem for business, and according to the Cyber Security Breaches Survey 2018, it exists on an extensive scale.

More than four in ten UK small businesses, and two in ten charities, experienced a breach of cyber security in the last year, according to the Survey. Among larger businesses, the figure rose to two thirds. Although 74% of SMEs report feeling safe from attack, the Survey suggests 'There is still a lot that organisations can do better.'

Providing security

In this Briefing, we review areas where the Survey found that many businesses left themselves open to attack, as well as other key topics:

- technical controls neglected by many businesses
- special dangers with mobile working
- safeguarding removable media
- password policy
- detecting phishing emails.

Technical controls

The Survey found that around 50% of the business population failed to implement basic technical controls set out in the government's Cyber Essentials scheme **goo.gl/aWgVYe**

Filtering what comes in

The first line of defence is to filter what's coming in. It may sound obvious, but the Survey found that around one in ten businesses still don't routinely do so.

Firewalls and antivirus software filter incoming computer communication. Together, they establish what's safe to allow through, and block malicious software ('malware'). At the most basic level, say, for a laptop connected to the internet, a firewall may be included in the operating system. In this case, it simply needs to be switched on. But many businesses will have a more complicated system, with various different types of devices. They may need a boundary firewall to protect the whole network. Some routers may contain a firewall, but this is not always the case, and your internet service provider can provide clarification. Another tip is that firewalls can be set up or 'configured' to block sites which could pose a risk to your business. This way staff can't access them.

Antivirus software should be installed, and switched on, for all computers and laptops, running regular scans to delete malware such as viruses and ransomware. Antivirus software should be updated as regularly as possible. Smartphones and tablets also need protection, though they may not need separate antivirus software, depending on how they are configured. The National Cyber Security Centre offers guidance here **goo.gl/3NmA9G**

Keeping up-to-date

Many businesses run outdated systems that seem to work 'well enough' to save the time and effort involved in doing updates. But keeping the system up-to-date is critical, and the Survey highlighted this as an area where many businesses weren't sufficiently rigorous. Nearly one in ten businesses weren't regularly updating software and malware protection. Basically, everything needs to be up to date: operating systems, software, apps. And on all IT equipment: tablets, smartphones, laptops and PCs. The operating systems on all business devices should be set to 'Automatic Update,' and software likewise.

Applying updates is called 'patching.' Patches exist not just to offer new features, but because security vulnerabilities are regularly discovered. That means that businesses which don't apply patches are easy prey for cyber criminals - who are every bit as quick to find software errors as the software developers.

Another tip is to remove any unused software or services from devices used. In the words of the Information Commissioner's Office, 'If you don't use it, then it is much easier to remove it than try to keep it up-to-date.'

Businesses also need to think about replacement policy. There will come a point at which a device reaches the end of its supported life and updates will no longer be available. Replacements need to be bought in at least by this point.

Checking who has access

Another area of concern in the Survey relates to access rights. Who has access to what in your business? Restricting user access to the system is another of the basic technical controls set out in the Cyber Essentials scheme.

Staff accounts should be configured so that if there is a phishing attack on your business, the risk is minimised. This means that users should be given the lowest level of user rights necessary to do their job. If, for example, a user account exists to create backups, it doesn't need to be able to install software as well – and it's safer if it can't. Restricting access in this way is called the 'principle of least privilege.'

'Administrator' privileges are particularly important and should be kept to a minimum. An Administrator account can change security settings, install software and hardware and access all computer files: a security breach here therefore has more serious consequences than a breach of a standard user account. Most malicious software, for instance, needs Administrator privileges to install itself or gain access to protected files. Making sure staff don't use an Administrator account to browse the web or check email can reduce the risk of an Administrator account being compromised.

When staff leave, remember to delete or deactivate their user accounts. This is also worth considering if staff are away from work for prolonged periods.

Selecting secure settings

The Survey also found that many businesses were failing to use appropriate security settings – another basic control listed in the Cyber Essentials scheme. Selecting the most secure settings for devices and software is critical. The 'default' settings of new devices and software – those used by the manufacturers – will in many cases need customising before use to improve security. One tip would be to disable or remove functions, accounts and services that your business doesn't need. Default passwords should be changed before devices are used (see below). Touch-ID or PINs can also be used to provide extra security.

Special dangers with mobile working

On business premises, servers can be stored in a separate room. Back up devices, CDs and USBs can be locked away while they're not in use. But when staff are mobile, different risks arise.

Loss or theft of devices is a particular hazard. Many devices, however, now include free web-based tools which can track a device and lock it remotely so it can't be used. They can also remotely erase data and retrieve a backup of data stored on the device. Mobile device management software can be used to set up a standard configuration on all your devices to do this.

Unknown Wi-Fi hotspots, for example in hotels and coffee shops, are a prime risk. Connecting to the internet in a hotspot can potentially give someone else access to what you're working on while connected, or to private login details which many apps and web services maintain while you're logged on. Using 3G or 4G mobile networks instead provides security. This has the advantage that you can also use 'tethering' (your other devices, such as laptops, share the 3G/4G connection) or a wireless 'dongle' provided by your mobile network. Another possibility is to use a Virtual Private Network (VPN), which will encrypt data before sending it.

The Survey noted that where businesses allowed staff to connect their own devices to a business network, say for remote working, this added another layer of risk. A 'Bring Your Own Device' policy, setting out appropriate security can help here.

Safeguarding removable media

The Survey highlighted the fact that many businesses needed to pay more attention to removable media - disks and drives like DVDs and USBs. Removable media can be easily lost - and important business and customer data with them. But if infected, they also have devastating potential to spread malware throughout an entire business. Tips to minimise infection include blocking access to physical ports for most users, only allowing business-owned removable media to be used with business devices, and using antivirus tools. Not all staff will need access to USB drives, and it can be prudent to make an inventory of USB drives, who they've been issued to, and monitor on an ongoing basis whether they are still necessary.

Password policy

'A free, easy and effective way to prevent unauthorised users accessing your devices.' That's how the National Cyber Security Centre describes a good password policy. It's important to make sure password protection is operative on all devices - laptops, PCs, smartphones and tablets - and that manufacturers' default passwords are changed before devices are used.

The use of three random words, and misspelled words is current best practice, and experts recommend training staff on how to create non-predictable passwords. 'Password' and '123456' still come high on the list of most-used - and therefore most dangerous - passwords. Secure storage, like a locked cupboard, is advised, to give staff the ability to keep a written note of passwords safely. Password details should never be left with the device itself.

As part of a secure password policy, the use of two factor authentication (2FA) for important accounts like email, banking and IT admin is worth considering. 2FA works by using two different methods of verification before a service can be accessed – but is dependent on the service provider allowing its use. It usually works by using a password in combination with a code sent to a mobile phone. This means accounts can't be accessed even if an unauthorised person knows relevant passwords. Service providers are now starting to offer enhanced confidentiality and security settings for email, which may help here.

Detecting phishing emails

Good cyber security isn't just about technology: it's also about people. One of the most high-risk areas is staff receiving fraudulent emails. Phishing attacks, where emails are sent out asking for sensitive information or containing links to malicious websites, are becoming more and more sophisticated. Just one click can introduce malware with devastating consequences. Reputable 'brands,' such as HMRC, can be used as a 'hook' – and the resemblance to the authentic brand can be very high. Invoice-related scams are increasingly common, as are banking security notifications. Other scams operate by requiring staff to 'enable content' or 'enable macro' before they can view. Configuring your accounts to give least privilege (as above) and training staff will help keep your business cyber secure here.

How we can help

It has never been more important to have secure online behaviours in place, and we have only been able to give general guidance here. Please do not hesitate to contact us for help carrying out a security or information audit, or training staff on security issues.

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Registered Auditors

VAT: what the smaller business needs to know

VAT can seem daunting to the smaller business, not least because of a strict penalty regime. But a good grasp of the basics can help reduce errors and minimise the risk of penalties. This Briefing offers guidance in a number of key areas.

VAT basics

A VAT registered business collects tax on behalf of HMRC. It charges VAT – known as output tax - on its sales. It is then responsible for paying this to HMRC – usually quarterly. Most goods and services which the business purchases are also subject to VAT: this is known as input tax. Input tax is deducted from output tax owed to HMRC - though there are some types of input which cannot be treated like this.

Not every business charges output tax on its sales. Some sales, like financial services, are exempt from VAT. Others, like food and children's clothing, are zero rated. Rather than paying VAT to HMRC, businesses making mainly zero rated supplies may be 'repayment traders' and get a refund of the input tax they've paid.

VAT has major implications for business cash flow. Output tax monies enhance liquidity, but it is important to keep track of what is owed to HMRC. Businesses can be lulled into a false sense of financial security by a strong bank balance, when in fact part of this represents the end of quarter VAT liability. Good systems and record keeping are essential here.

Common areas of confusion

Reclaiming VAT on purchases

Registered traders can reclaim VAT on purchases on two conditions: the expense must be incurred for the purpose of the business and there must be a valid VAT invoice for the purchase. There are precise requirements as to what constitutes a valid VAT invoice **goo.gl/SkJkWN**

In limited circumstances, HMRC may accept claims for input tax with alternative evidence, but this is a discretionary area. The evidence required is still precise, and we would be happy to provide specific advice to maximise your input recovery. In addition, there is a very limited list of supplies, such as car park charges and some toll charges, for which it is not necessary to provide a VAT invoice to reclaim input tax, so long as the total expenditure for each taxable supply is £25 or less (including VAT).

VAT can never be reclaimed on: stamps; train, air and bus tickets; on-street car parking meters; office groceries like tea, coffee and milk. These are purchases often causing confusion. Nor can it be reclaimed on goods or services purchased from a non VAT registered business.

Business purpose

In the smaller business, personal and business finances are often closely interlinked, and problems can also arise with HMRC in this area, too.

Input tax cannot be reclaimed simply because it relates to expenditure by a VAT registered trader. To qualify, expenditure must relate directly to the purpose of the business. Expenditure that can cause confusion includes expenditure related to domestic accommodation, and expenditure on sport or recreational activities; expenditure for the personal benefit of company directors/proprietors, and expenditure in connection with non-business activities. Such expenditure does not satisfy the 'for the purpose of the business' test.

Some expenditure is for a mix of purposes: it has both a business and a private element. Here VAT should be apportioned, with only the business part reclaimed. Where goods (assets and stock) initially bought for business purposes are later put to a different use, special rules apply.

Example

Beatrix Potter buys three laptops for her business. Total input VAT of £360 is reclaimed.

One is immediately gifted to Beatrix Potter's son. The VAT then has to be accounted for. It is calculated as: 1/3 x £360 = £120. If gifted later, output tax would be based on market value at that point.

Business entertainment

The VAT treatment of business entertainment is complex. Generally, VAT is not recoverable on business entertainment - defined as the entertainment of clients or customers. The disallowance could also relate to the VAT on travel expenses incurred to facilitate the entertaining, and the hospitality element in trade shows and public relations events. But VAT incurred on entertaining employees, say as a reward for their work, or to boost morale, through staff parties or team-building exercises, is not blocked from recovery, nor is the VAT on employee subsistence costs. We would be pleased to advise on this complex area.

Business gifts

In theory, giving goods away creates a VAT liability, as a VAT supply has taken place. With business gifts however, no output VAT is due so long as the VAT exclusive cost of the gifts is not more than £50 in any 12-month period to any one person. If the limit is exceeded, output tax becomes due on the full amount. Business gifts are widely defined to include gifts to both customers and staff. To add to the complexity, slightly different conditions, including the need for a conspicuous advert, apply to determine whether or not the cost of gifts to customers is deductible for income and corporation tax purposes.

Cars and motoring expenses

Input errors are often made here.

- Input tax cannot generally be recovered on buying new motor cars, except for taxis, driving schools or car dealers. Such businesses are also able to recover VAT on a car leasing charge (see below for the general rule).
- Purchase of commercial vehicles and vans is different. Input tax is generally allowable if the vehicle is for business use.
- Generally, only 50% of the VAT on the leasing charge on cars is reclaimable.
- Where a business supplies fuel or mileage allowances for cars, it must make adjustments so only the business element of VAT on fuel is recovered. Various methods can be used. Please contact us if this is relevant to you.

Bad debts

Output VAT must normally be accounted for when a sale is initially made, even if the customer doesn't pay. In the case of a bad debt, a claim to recover the VAT on the sale (bad debt relief) can be made six months after the due date for payment of the invoice. In some circumstances, the Cash Accounting Scheme may provide a better solution for the business (see below).

Be aware that where a business, as customer, has reclaimed input VAT, but not paid its supplier, this should also be adjusted. The time limit here is six months after the due date for payment.

Record keeping and penalties

These aspects are not covered here but useful guidance can be found at **goo.gl/92tge1** and **goo.gl/L3u4Wc**

Schemes for the smaller business

Cash Accounting Scheme

Best suited to sectors which wait to get paid, this Scheme can benefit cash flow, enabling a business to account for, and pay VAT, on the basis of cash received and paid, rather than invoice date. This can help with the problem of bad debt relief. On the other hand, Scheme users must wait to recover input tax until they pay their bills. Businesses can join if annual turnover is below £1,350,000.

Retail Schemes

Retail Schemes exist to simplify procedure for the many businesses dealing with the public and making supplies at different rates of VAT. Rather than keeping records of every sale and calculating their output tax in the usual way, they have different methods of calculating the value of taxable retail supplies and establishing which rates of VAT to use.

Annual Accounting Scheme

This Scheme means submitting just one VAT return a year, rather than the normal four, thus reducing paperwork. The Scheme also helps businesses budget, as VAT liability is split into quarterly or (nine) monthly payments during the year. These are based on the last return made, or for businesses new to VAT, on estimates. A balancing payment is made with the return. Businesses may join if taxable supplies in the next 12 months are not expected to exceed £1,350,000, and they are up to date with VAT returns. Businesses registered for VAT as a group or part of a division are not eligible.

Flat Rate Scheme (FRS)

FRS simplifies VAT calculations for the smaller business. Historically, it has also resulted in a reduced VAT liability in some business sectors.

With FRS, VAT is paid as a fixed percentage of VAT inclusive turnover. Input VAT on purchases is not reclaimed (except for certain capital assets over £2,000), and the business keeps the difference between the sum charged to customers and that paid to HMRC. To use FRS, expected taxable sales in the next 12 months must be less than £150,000, excluding VAT. The flat rate percentage depends on the type of business involved: 14.5% for architects and surveyors, 4% for some retailers, for example.

There has been considerable change to the FRS with the introduction of 'limited cost trader' (LCT) status from 1 April 2017. LCTs use a 16.5% rate, which is higher than other categories. If a business has VAT inclusive expenditure on goods either less than 2% of turnover in a prescribed accounting period, or more than 2% but less than £1,000 per annum, it is classed as an LCT. Any FRS business must now establish each VAT return period if it is liable to such classification.

Because LCT status gives only minimal credit for input tax, FRS may no longer be beneficial for some businesses. We would be happy to advise further.

MTD for VAT: a new way to submit returns and keep records

MTD for VAT (MTDfV) becomes mandatory for any VAT registered business operating above the VAT threshold (£85,000 until at least 2020) for VAT return periods beginning on or after 1 April 2019.

Businesses operating below the VAT threshold will need to monitor turnover carefully. In future, any business reaching the VAT registration threshold will not just have the VAT rules to comply with, but MTD requirements as well.

Businesses currently voluntarily registered for VAT may elect to join MTDfV, but are not mandated to do so. There will be some exemptions, as with the current system of exemption from electronic filing. However, the categories under which exemption can be claimed are tightly-drawn and unlikely to be applicable to most businesses.

MTDfV requirements mean that VAT records must be kept digitally using MTD functional compatible software (software or a combination of software and spreadsheets) which can connect to HMRC via an Application Programming Interface. VAT returns will be generated and submitted direct from a business' digital records, without manual input. A new VAT Notice outlines 'digital journeys' which could achieve this, though a 'soft landing' period of 12 months is envisaged where HMRC will not impose penalties if digital links do not exist between items of software used.

How we can help

The timescale to implement MTD-compliant processes and record-keeping is short, and it presents challenges - especially given that it coincides with Brexit. It is recommended that businesses check with their software providers what products they will have available, and plan now for compliance. If you would like to discuss how best to make the transition to MTDfV, we should be delighted to be of service.