

1. What is Making Tax Digital (MTD)?

This is an important change to the tax system being implemented by HMRC. It means you will need to keep digital records and submit business tax returns digitally.

We see this as a benefit. Keeping digital records and using good software can provide efficiencies; time and cost savings. MTD compliant software can link to your bank account, assist with paying bills, and simplify interaction with customers or suppliers.

We're working with our clients to implement software and the processes to make these submissions.

MTD TIMELINE

MTD for VAT. First phase.

By now, VAT registered business with a turnover above the VAT threshold (£85,000) should be keeping digital records and making VAT return submissions through MTD compliant software.

If you are below the VAT threshold you can voluntarily join the MTD service.

April 2022 onwards. Next phase

MTD for VAT will be mandatory for all VAT-registered businesses and organisations.

April 2023 onwards. Incorporated businesses and landlords

MTD for income tax will be mandatory for some self-employed and partnership businesses and some income tax payers with income from property. It will only apply to those with business income (turnover plus gross rental income) over £10,000.

TBC. Companies

HMRC is consulting on the detail of extending MTD to companies with Corporate Tax obligations.

2. What is Xero?

This is cloud-based accounting software for small business, sole traders, partnerships or companies. It allows you to share access to the business numbers simultaneously with your team, accountant and bookkeeper. It keeps everyone up to speed - regardless of location or operating system.

Beverston is in partnership with Xero and it has enabled us to keep in touch with clients and their numbers.

As you may have seen on our previous pages, we've also just been awarded Gold Partner status with Xero in recognition of our extensive knowledge and ability in implementing, training and supporting clients in using this software.

XERO OFFERS A HOST OF FEATURES WHICH INCLUDE:

- Sales invoicing and quotes
- Purchase invoice recording and purchase orders
- VAT submissions (MTD)
- Mobile app
- Track the time and money spent on jobs
- Get a complete snapshot of contacts and relationship history
- Stock control
- Bank connection and feed
- Simple bank reconciliation
- Payroll
- Easy access to key data from the dashboard
- Tailored smart financial reports and budgets

Why Xero?

We have worked with a lot of software over the years and have not found the alternatives to Xero to be as good. Functionality and ease of use is what sets Xero apart. However, we have clients who operate other software such as Sage and Quickbooks. Ultimately, it's the clients' choice and we will also work with other software.

3 How can I pay less tax (legitimately)?

This must be the most asked question by our clients. Our approach is to help our clients legitimately 'pay the right amount of tax and the least amount of tax'. There are many opportunities to save tax depending upon your personal circumstances.

HERE ARE A FEW TOP BUSINESS TIPS:

Incorporation

A current low corporation tax rate of 19% and dividends being taxed at low rates with no NIC, make operating through a company attractive. Under these circumstances the business owner becomes an employee and director of the company. Although reporting requirements are now more simplified than they used to be, we assist our clients to get everything correct and in order. Planning is done to enable the director and shareholders to extract money in the most tax efficient way.

Timing matters

Make your large purchases, for a new van for example, before the year end passes. This allows you to bring forward the tax relief.

Pensions

Self-employed people paying into pension scheme can extend the basic rate band, which allows them to earn more before being taxed at the higher rate.

For employees (including company directors), contributions to an employer's pension scheme can be made from gross pay, before any tax is charged. The government will top up the pension with tax relief, providing a free bonus for retirement savings. This means that money that would have gone to the government as tax instead goes into your pension.

For example, if you are a basic-rate taxpayer and were to contribute £100 from your salary into your pension, it would actually only cost you £80. The government adds an extra £20 on top – this is what it would have taken in tax from £100 of your salary.

Higher-rate (40%) and additional-rate (45%) taxpayers only need to pay £60 and £55 respectively to achieve the same £100 of pension savings.

The contributions which an employer makes into an employee's pension are a deductible expense.

Tax-deductible expenses

Companies and self-employed people are charged tax based on profit. It can be a minefield understanding which expenses can be claimed to reduce the profit and therefore the tax bill.

We work with our clients to understand their trade and identify those costs which can be claimed. We ensure that tax-deductible expenses are maximised fairly and, just as importantly, in line with the HMRC rules.

TAX ALLOWANCES:

Personal allowance

£12,500 can be earned, per year, before incurring income tax.

Capital Gain Tax (CGT) allowance

Currently £12,300, which means a gain of £12,300 can be made on the sale of an asset without having to pay tax.

Dividend allowance

The first £2,000 of dividend received in a tax year is tax free.

Personal savings allowance

You can earn £1,000 of interest on savings tax-free if you're a basic-rate taxpayer. If you are a higher-rate taxpayer, your tax-free allowance is £500. You will only pay tax on savings income that exceeds this threshold.

Marriage allowance

This is a tax perk that benefits couples where one partner earns less than the personal allowance (£12,500). If you are married or in a civil partnership, you can transfer any unused personal allowance.

It's worth knowing that up to £1,250 can be transferred in 2020-21, potentially saving you up to £250.

The Rent a Room Scheme

The Rent a Room Scheme lets you earn up to a threshold of £7,500 per year tax-free from letting out furnished accommodation in your home. This is halved if you share the income with your partner or someone else.

Trading and property allowance

If you earn money from trading activities - such as selling items on eBay or offering a small freelance service - you can make £1,000 tax-free.

This is known as the 'trading allowance'. In addition, if you make money from your property, you can also earn £1,000 before paying tax on the income. If you earn more than £1,000 you can choose to deduct the trading allowance from trading income.

KEEP AN EYE ON THE TOP TAX RATES:

Income tax rates for 2020/21 are as follows:

EARNINGS	RATE
Under your personal allowance (PA) £12,500	0%
Basic rate Over £12,500 to £50,000	20%
Higher rate Over £50,000 to £150,000	40%
Additional rate Over £150,000	45%

We help clients to plan their income to utilise the tax rates efficiently. For example, a trader could look at ways of transferring income to a spouse who may not be utilising their personal allowances.

4 Should I run my business through a limited company?

The short answer is 'it depends'. We carefully review the circumstances of the sole trader or partnership to see if it is the best thing to do.

HERE ARE A FEW POINTS TO CONSIDER:

Limited liability

With a sole trader, the business and the owner is the same legal entity, so if anything goes wrong or the business goes into debt, the owner would be personally liable. With a limited company, the risk stays with the company, and in most circumstances, the directors are not liable.

Credibility

Limited companies are registered with Companies House. This adds credibility and suppliers and customers are more likely to trust a company.

Tax

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Compliance and Companies House

Company accounts and a Confirmation Statement must be filed annually at Companies House. Although reporting requirements are more simplified than they used to be, we ensure that our clients make the correct and timely returns.

Family Business and Succession Planning

With a company, due to ownership being represented by shares issued, more combinations are possible, with family members given a greater share in the business as their responsibilities grow.

Varying rights can be allocated to different shares, which allows for flexibility in paying family members and also their direct involvement in the decision making in the company.

If this is a sensible route to be taken for the business, then early planning is essential, begin discussions about where the business is heading, and how family responsibilities could be allocated.

5 Should I get a company car?

Most self-employed people and company directors work incredibly hard. Often a decent car is seen as a well deserved reward. However there are a lot of HMRC tax variables around company cars so it makes sense to speak to us before making a decision.

If you are a sole trader, there is no tax issue because you and the business are the same entity; you and the business own the vehicle. However, if you run a limited company and the company owns the vehicle; the company would be providing the car to the director as if they are an employee, therefore subject to 'benefit in kind' for the private use of the car.

How does the benefit in kind on a car work?

The benefit in kind tax is calculated by using the car list price, fuel type and CO2 emissions. The higher the list price of the car and the higher the CO2 emissions, the greater the tax. You can use HMRC's calculator to get an idea of what the benefit in kind tax might be. Clearly, a top spec Mercedes with a large engine will be considerably higher tax than a Nissan Micra.

Other considerations

Furthermore, the company pays employer's NI on the value of the benefit as if it were additional salary.

On the plus side, the company can deduct the running costs of the vehicle and some of the purchase cost from profits to reduce corporation tax. If the director/employee pays for all the fuel in the car, then they can claim mileage allowance at HMRC prescribed rates.

Electric and hybrid cars

From April 2020 new rules exist for electric and hybrid cars which make provision of them more tax efficient. With these cars being more available and lower in price, this is becoming a much more attractive option.

IF YOU WOULD LIKE TO CHAT ABOUT ANY OF THE DETAILS CONTAINED WITHIN THIS DOCUMENT, OR ARRANGE A MEETING TO DISCUSS YOUR CURRENT, AND FUTURE, TAX AND ACCOUNTING NEEDS - PLEASE CALL US ON 01752 977432, WE ARE HERE TO ADVISE AND HELP...