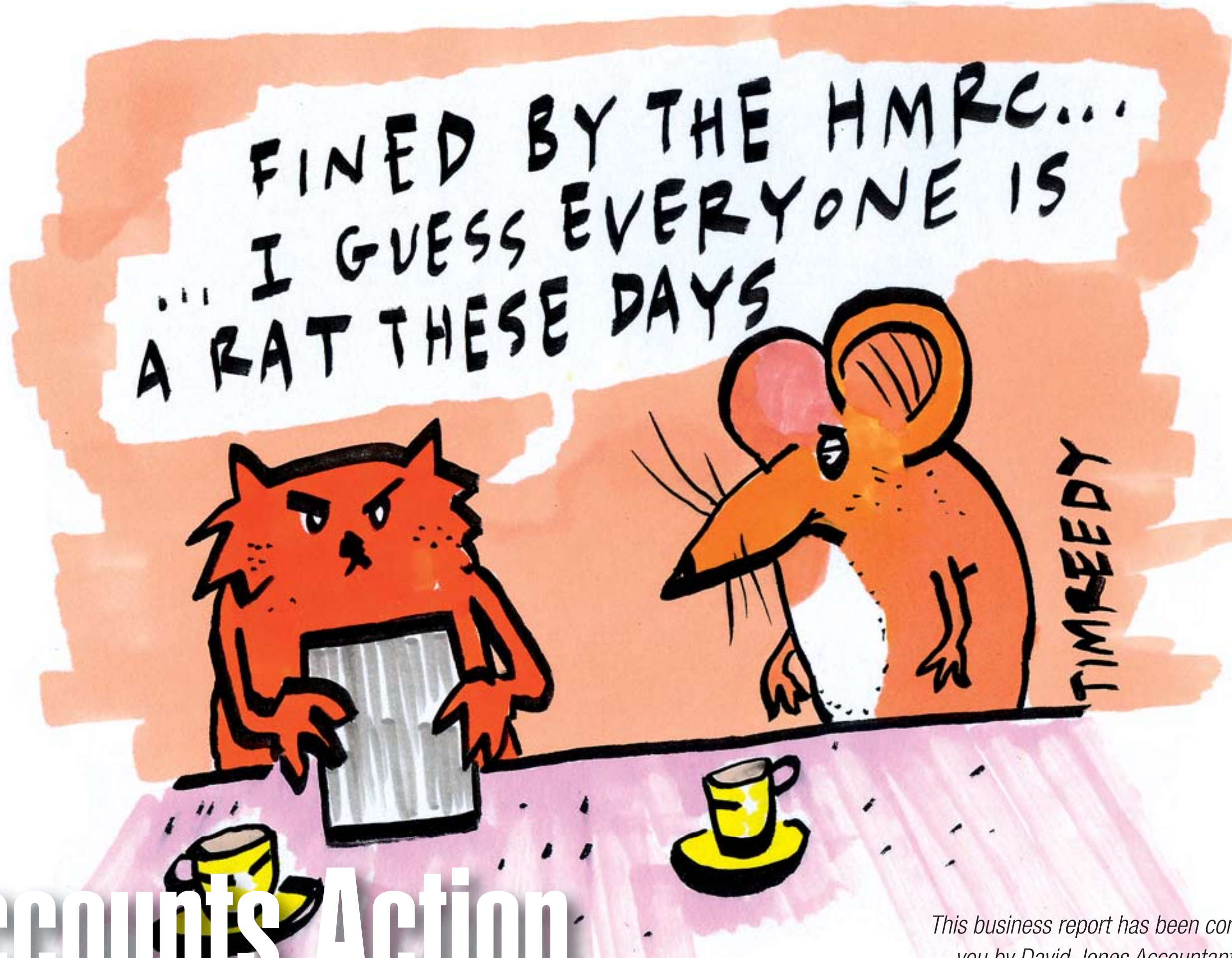
The OnTrade Preview 2018

Finance Section



Accounts Action

This business report has been complied for you by David Jones Accountants Limited
www.drjaccountants.co.uk
Email - david@drjaccountants.co.uk

Money Matters

KEY SECTIONS

- Business Structure
- Accounting
- Basic Rules
- Employees / PAYE
- Value Added Tax
- Sundry Matters
- Taxation
- Disclaimer

These items will make you more money, help your cash flow or save you tax.

Keeping your financial affairs in order is the key to running a successful operation, whether you own one outlet, or several.

It is essential to choose a reputable qualified firm of accountants that has experience in the Licensed Trade, but it also pays to understand the basics of how the taxation and VAT system is operated by HM Revenues and Customs (HMRC)

This article is intended as a reference guide only and should not be considered to replace the need for a Trade Accountant.

BUSINESS STRUCTURE

If you only operate one outlet the first thing to decide is what type of business you want to run. There are various advantages and disadvantages to be considered when taking a decision whether to operate your business as a limited company or as an unincorporated entity (sole trader or partnership). This is an area in which advice from an accountant is particularly essential since it will form the basis for future years' trading and a wrong decision at the outset could prove very costly. **If you plan to operate a tenancy, you must inform the landlord of your proposed trading entity.**

ACCOUNTING

Your Licensed Trade Accountant will introduce you to a simple Weekly Statement of Business (WSOB) and then prepare all the necessary records and up-to-date financial information. It is in your own interest to obtain and retain invoices and receipts. They will form the proof needed to reclaim VAT.

Records must be kept for six years. It is essential at the outset to adopt a close control over takings and stock consumption. This can be achieved by either a simple computerised till supported by manual stocktaking or a fully integrated system linked to the till which would control both takings and stock. There are many systems which aim to eliminate pilferage and increase profits but **employing a stock taker is essential** in achieving this.

There is no definitive list in tax law of what records have to be kept; the law merely states that you have to keep records which enable an accurate return to be submitted. You have to record all amounts received and expended and retain supporting documents. These supporting documents can include accounts, books, deeds, contracts, vouchers receipts and till rolls.

David Jones Accountants Ltd - Specialist Licensed Trade Accountants

Successful licensed premises require a certain type of licensee...

...who needs a certain type of Accountant

Whether you're new to running and developing licensed premises, or a seasoned professional with many years industry experience to your credit, you will appreciate that it is vital to build and maintain a solid business foundation.

By maintaining tight control of your business finances you are able to maximise potential whilst proactively identifying and avoiding the many pitfalls of the industry that can eat into your bottom line. **That's where we come in.**

DRJ are **specialists in licensed trade accounting,** giving you all the assistance you need, through our comprehensive and unique portfolio of accounting services, easing your workload and letting you focus on running the business.

With you on your business journey every step of the way!

Call DRJ Accountants on : 01937 581 356
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DAVID JONES
ACCOUNTANTS LTD

BASIC RULES

Takings

You should record the cash taken (not the till reading) on your cash record sheet as this is the amount on which tax must be levied for both VAT and income tax purposes. If the till-roll figure is different from the cash taken then explanations as to the difference should be recorded against the Z reading on the till roll itself. VAT is still due if cash takings have been stolen. The no sale button should be used sparingly (if at all) as HMRC could argue that an excessive usage conceals unrecorded sales.

Catering

If you are providing catering facilities for your customers and neither you nor your family are consuming any of the food, you should retain your private bills for food for say 3-4 months. This would prove that you are not consuming any of the food purchased for the business, and that no tax adjustment should be made.

Funds Introduced

If you introduce money into the business you must be able to prove the source of the funds. It is, therefore, essential that you have proper weekly cash-balancing procedures in place using your WSOB provided by your Trade Accountant.

Entertainers

Full details of payments to entertainers should be kept. A proper, signed, receipt with the name and address of the artiste should be obtained on each occasion. Resident entertainers e.g. DJ's, need to use their own equipment if PAYE charges are to be avoided.

Cash Payments

Wherever goods and services are paid for by cash and no invoice is given you should obtain a signed receipt. Recording the name and addresses of the person you have paid is essential.

Year End Stock

You should arrange for your regular stock taker to provide a stock valuation certificate at the year end. If you calculate the value yourself you must retain the list of all stock items and containers at cost.

Till Rolls and Restaurant Slips

There is no legal requirement for you to retain till rolls. You do however need to retain supporting evidence of your takings in order to justify the amount entered on returns. HMRC regard till rolls as prime records, but they have no legal grounds to demand that they should be retained. Your z readings are acceptable as supporting documentation as they summarise the till rolls.

HMRC cannot demand that restaurant slips be retained but you must be able to justify your food takings e.g. z readings.

HMRC can however impose a maximum fine of £3,000 if they can prove that records have been deliberately destroyed. It is therefore important to retain z readings as a minimum in order to avoid any such claims by HMRC.

Business Documents

HMRC regard till rolls, business diaries and restaurant slips as prime records and they often state business records are not complete if these are not retained. It is advisable that a diary is kept, which will help justify ullages, breakages, weather conditions as well as recording bookings.

The official guide, issued by HMRC suggests that 'Whatever records you keep it is sensible to organise and retain them in an orderly fashion'. When you appreciate that HMRC can impose a fine of up to £3,000 for documents and records which are not kept, it is in your best interest to set up a system of storage for future reference.

Try to avoid using private bank or building society accounts to deposit takings or to pay suppliers directly. If these accounts are used, HMRC can demand to see them, as they form part of the business records.

You may then be asked to explain all other deposits into these accounts as HMRC will contend that all unexplained amounts are further business takings.

Wastage

You should keep a daily record of ullage, breakages, wastage and drinks given away, e.g. quiz prizes, staff drinks, team drinks etc. You should record the value of stock lost through pump cleaning and also wines, liqueurs, cider and stout used for catering purposes.

Stock

Keep a record, whether in a business diary or in some other form, of goods which are not sold at the normal retail price or are given away. Giving drinks away affects profit and a simple explanation will not satisfy the HMRC. In the case of a random tax enquiry you could face additional tax liabilities. HMRC would be quite justified in insisting that without a proper daily record such goods were taken for own consumption. To **set an example to staff** and customers you should always be seen to pay for your own drinks. (Also see value added tax section – free drinks)

Business Diaries

These should be retained for inspection by tax authorities if needed. Business diaries can provide supportive confirmation of trade activities, for example, bookings, events, bad weather etc.

Car Log

If you are a **Sole Trader or Partnership** you should claim **all your car expenses** but you need to establish the business element of your motoring costs and the best way to do this would be to keep a car log over a number of months to establish average usage. In the case of an enquiry into your business affairs the HMRC could disallow any claims for business use unless you can provide them with such a daily record.

If you operate as a **Limited Company** there are tax consequences if you claim all motoring expense, instead you should record your business miles in your car log.

You claim the first 10,000 at 45p per mile, the rest at 25p (plus 5p per mile for each business passenger). All motoring expenses e.g. fuel, insurance, repairs etc. would be paid personally.

You should also record total mileage for each tax year, as an element of VAT can be reclaimed on your business miles.

Goods for Own Use

A record must be kept of business purchases taken for personal use by you and your family i.e. wet stock, cigarettes and food. It is quite in order for you not to use any goods for own consumption but, in these cases, you should be in a position to explain how you pay for private purchases.

EMPLOYEES / PAYE

You should always issue a new member of staff with a probationary contract. You will find this approach invaluable in dealing with disciplinary matters (and dismissal). Advice is available from ACAS (Tel. 03001231100)

You must keep a record of all wages paid to employees in electronic format and best practice is to ask all staff sign for cash received.

You are solely responsible to deduct Income Tax and National Insurance (NI) from staff members and account for these sums to HMRC. There are severe penalties for not operating the PAYE system correctly.

Do not be duped into engaging self employed Chef's without seeking advice, as you will be liable for the Tax and NIC if HMRC say the Chef is not self employed

If NI contributions apply **you must pay a higher employer's contribution (in addition to that deducted from the member of staff).**

Minimum Wage

From 1st April 2017 the minimum wage rates are as follows:

▶ Apprentice rate	£3.50
▶ Under 18 years old	£4.05
▶ Aged 18 – 20 years old	£5.60
▶ Aged 21 and over	£7.05
▶ Aged 25 and over -Living wage	£7.50

Pay slips

You must inform HMRC and give a statement of pay to every member of staff on (or before) the date of payment. The statement must include gross pay, net pay and deductions (clearly explained).

The Working Time (Amendment) Regulations 2003

This legislation gives rights to employees on a variety of working practices, including specific exemptions and the need to keep additional records.

The basic rights and protections that the Regulations provide are:

- a limit of an average of 48 hours a week which a worker can be required to work (though workers can choose to work more if they want to).
- a limit of an average of 8 hours work in 24 which night workers can be required to work.
- a right for night workers to receive free health assessments.
- a right to 11 hours rest a day. a right to a day off each week.
- a right to an in-work 20 minute rest break if the working day is longer than 6 hours.
- a right to 5.6 weeks paid leave per year.
- 16 & 17 year olds cannot work over 8 hours per day or 40 hours per week.

Written particulars of Employment

All employees are entitled to receive a written statement of employment, provided that they are employed for one month or more.

The statement will have to be provided within two months of commencement of the employee's employment and must include:

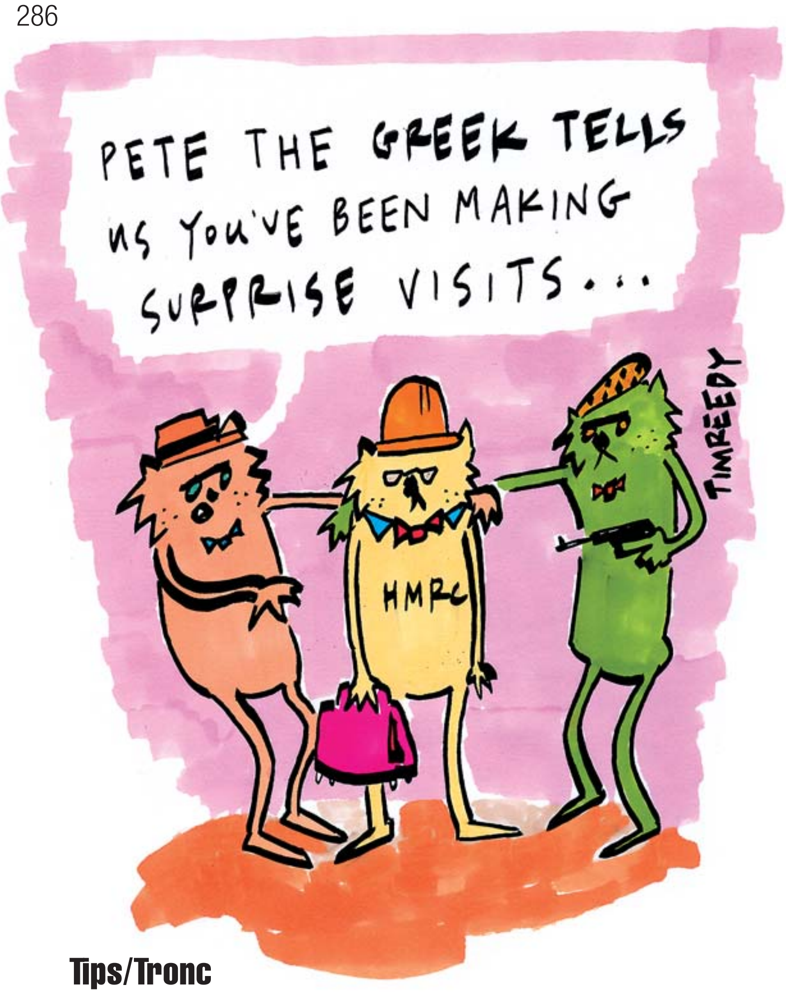
- The date when employment commenced;
- Remuneration and the intervals at which it is to be paid;
- Hours of work;
- Holiday entitlement;
- Sickness entitlement;
- Notice entitlement;
- Job title or brief job description;
- Where not permanent, period for which employment is expected to continue or, if for a fixed term, date when it ends;
- Either the place of work, or if the employee is required to work in more than one location, an indication of this;
- Disciplinary and grievance procedures;
- Information about pension schemes if applicable.

Changes

An employer is also required to give employees individual written notification of any change to the statement. This up-dating must be made within one month of any such change.

Terms & Conditions

Should define serious misconduct which would result in an instant dismissal.



Tips/Tronc

Tips, gratuities and service charges do not count towards the National Minimum Wage (NMW).

National Insurance will only be due if a specific contractual entitlement exists in respect of gratuities or if an employer has directly or indirectly allocated the gratuities to their employees.

It is advisable to make sure procedures are in place to avoid any action by HMRC. If you are unsure about tips etc, it is best to seek the professional help of an accountant or tax consultant.

Investigations

Checking the payments you make to employees is a popular area of verification by HMRC (and the Department of Work and Pensions (DWP) regarding minimum wage payments) and mistakes can prove extremely costly. For example if you should have deducted Income Tax from a wage but did not do so, you (and not the employee) must pay the tax to HMRC. (If this is the case you will also be charged interest on the tax "paid late", after the due date, and face hefty penalties).

Wage records

It is a legal requirement that you keep details of wages paid to each employee on a weekly basis, in electronic format. Your Trade Accountant will provide a payroll service for you.

Employee Starter Checklist (ESC)

New employees must be asked to complete an ESC certifying that they have no other employment.

If they do so and their wages remain below £157 for tax year 2017/18 (for National Insurance credits), then you should record individual weekly payments in a wages book. You must give them a payslip, and best practice is to ask them to sign for cash received.

If you have staff who have another job or are paid above this limit you will need a PAYE scheme which must include every member of staff.

Casual staff

Names, addresses and National Insurance numbers of casual staff should be recorded together with dates and amounts of wages paid; **Basic Rate Income Tax must be deducted** from the earnings of staff whose main employment is elsewhere since personal tax allowances cannot be given twice; regular 'part-timers' are entitled to proportionate holiday pay and to have the correct notice procedure applied.

Real Time Information (R.T.I.)

All payroll has to be completed electronically and submitted the HMRC using the Real Time Information (RTI) system. Under this system information has to be submitted electronically to HMRC every time a payment is made to an employee.

HMRC will verify the employee's information **before** a submission can be made. So it's vital that new employees provide you with a P45 or an ESC, otherwise you will not be able to submit payment details. Any delay in providing this information will make the RTI submission late and you will be charged a penalty!

Under RTI, HMRC will know the precise amount of PAYE and NI contributions you have deducted from staff wages. If you're late paying this over to HMRC, you will be charged a penalty and interest.

Universal Credit

Universal Credit was to be introduced at the same time as RTI and was to replace a number of befits including Working Tax Credit and Child Tax Credit. This new benefit will be administered by the Department of Works & Pensions (DWP). There have been a number of problems in bringing this new benefit into force and it has been delayed until 2018.

You should seek advice from your Trade Accountant to keep up to date with the proposed implementation of Universal Credit

Workplace Pension (Auto Enrolment)

All employers with at least one worker will need to automatically enrol certain members of their workforce into a pension scheme. As an employer you may need to make a contribution to it and must ensure that you meet all of the new requirements to comply with the law. Even if you already offer pension arrangements for your workers you still have new obligations to meet.

All employers will have staged by February 2018. With an immediate start for newcomers after 1st October 2017.

www.thepensionregulator.gov.uk/employers/staging-date.aspx

If your Trade Accountant provides a payroll service they should be able to fulfil your obligations.

Redundancy

Employees have the right to a redundancy payment if they have continuously worked for your employer for at least two years.

- For each complete year of continuous service up to the age of 21, you will receive half a week's pay.
- For each complete year of continuous service between the ages of 22 and 40, you will receive one week's pay.
- For each complete year of continuous service between the age of 41 and 61, you will receive 1½ weeks' pay.
- For employees age 61 and over, the payment remains the same as for age 61.

Disciplinary Procedures / Dismissal

Every employer, no matter how small, must have a system for dealing with disciplinary matters. These procedures must be written down and available to all employees. Failure to do so could result in compensation being increased by 50% if an employee takes a case to a tribunal.

Free guidance on procedures is available from ACAS (Tel 0300 123 1100).

The ACAS code of practice can be downloaded from www.gov.uk/taking-disciplinary-action

Other free advice is available from www.employeradvice.org.uk

You should **always** commence your relationship with a new member of staff with a **probationary contract** (which you could extend if you are not entirely satisfied). Once this period has been completed if you are to discipline a member of staff you must follow a **3 stage process:**

- **1** Statement of grounds for action and invitation to a meeting.
- **2** The meeting.
- **3** The appeal.

An employee with under one years' service if they started before 6 April 2012 (or two years service if they started on or after 6 April 2012) has **no right of appeal** to a tribunal for unfair dismissal, unless there is discrimination, or you have not followed the 3 Stage Process.

It is important to utilise the free advice but if you are still unsure you should seek specialist legal advice.

VALUE ADDED TAX

It is **imperative that VAT returns are submitted promptly** within one month (on a working day!) of the relevant quarter-end otherwise penalties are charged. If you pay your VAT by Bank Giro Credit or by debit card you are allowed a 7 day extension of the "due date" This increases to 10 days if you agree to pay by Direct debit (D.D) which could be invaluable for cash flow if you have to cope with other D.D. payments at the beginning of the month.

The Finance Act 1986 included legislation to combat avoidance of VAT through the artificial splitting of a single business to avoid registration. Publican's partners running 'separate business' catering operations have been cited as an example.

Registration

From 1st April 2017, the annual registration limit has increased from £83,000 to £85,000.

Advice from your Trade Accountant is essential **if you are not taking over a "going concern"**.

The limit for deregistration has increased from £81,000 to £83,000.

Rate

Standard rate is 20%

Liability to VAT

As a registered trader you must charge VAT on everything you sell, even when it is not a normal sale. For example if you sell a few optics to a customer or dispose of some old pictures hanging in the bar.

VAT should always be charged on the sale of a commercial vehicle.

You do not need to issue a VAT invoice unless your customer asks for one. But if the sale (including VAT) is £150 or less, the invoice is less detailed.

Reclaiming VAT

Remember that **VAT cannot be reclaimed** unless you obtain a **detailed VAT invoice** including your name and Pub or Bar address.

Petrol receipts and other invoices which only give limited details (up to a maximum value fixed by legislation currently £200) and cash and carry till roll receipts are acceptable by concession only.

Accounting for VAT

As a VAT-registered 'Trader' you are an unpaid Collector of Taxes. VAT is reclaimable on most purchases made, providing proper invoices are to hand but invariably you will be paying HM Customs & Excise, on a quarterly basis, because you collect much more VAT than you can reclaim.

As a rough guide, you may assume that approximately **8% of your wet takings** will equate to your quarterly VAT payments to HM Customs & Excise. This increases in the case of catering or accommodation income, and could be much more dependant upon sales mix.

It is sensible to **save say 12% of your total weekly take into a separate bank account** to cover for future taxation....your Trade Accountant will guide you.

VAT Registration

VAT registration documents should be received by Customs & Excise **within 30 days** of the commencement of trade. Penalties for late registration maybe issued if the documents are not received on time. It is rarely necessary to register before you start trading.

Penalties are calculated as a percentage of the VAT outstanding when the VAT registration is finally received as follows:

- 30% for failure to notify.
- 70% for deliberate but not concealed default.
- 100% for deliberate and concealed default..

There is a minimum penalty of £50.

Catering And Accommodation

As there will be very little VAT to reclaim from catering and accommodation activities, the quarterly liability will be on all the VAT collected. Your VAT liability at current VAT rate is equal to approximately 16.6% of turnover.

Free Drinks

If you give away drinks to team members, other customers or for "prizes", **a record must be made** when this takes place. You don't have to pay VAT on the sale price of free drinks, (as no transaction has taken place). But you are **not allowed to reclaim the VAT** charged to you on the delivery of such stock items. However you can claim all the VAT on **staff drinks** (so you must keep a record of these too). The record you keep of "give a ways" is also essential for your stocktaker.

Despatching the Return

All businesses, whatever their turnover, must file their VAT returns online and pay electronically.

You can register to file online at www.hmrc.gov.uk

All businesses newly registering for VAT whatever their turnover, must file their VAT returns online and pay electronically.

Acceptable payment methods for online submissions are:

- Debit Cards
- Direct Debit
- Credit Cards
- BACS
- CHAPS
- Bank Giro Credit
- Cheque - **only** if you have a Bank Giro Credit Book issued by HMRC specifically for your VAT registration number. Write the VAT registration number on the back of the cheque.

Different procedures apply to traders operating the Annual Accounting Scheme and/or Flat Rate Scheme.

Submitting a return/Surcharges and penalties

If you don't submit your VAT return, HMRC will make as "assessment" of the VAT due. **Your return and payment must be received by the due date** otherwise you could be "fined".

Should a return be submitted after the due date (one month and seven days after the end of the return period) a 'surcharge' (or fine) will be levied. The surcharge is calculated as a percentage of the VAT that is unpaid at the due date.

The declaration which you sign on the VAT return makes you ultimately responsible for conducting your own affairs within the law.

The surcharge due is (the greater of £30 and) a specified percentage, depending on the number of defaults as follows:-

No. OF LATE RETURNS	SURCHARGE LEVEL
1st late return	2% of the tax paid late
2nd late return	5% of the tax paid late
3rd late return	10% of the tax paid late
4th late return	15% of the tax paid late
Further late returns	15% of the tax paid late

If your annual turnover is less than £150,000 the penalty for the first late return is NIL with 5% for the second late submission, 10% for the 3rd and 15% for the 4th and subsequent returns.

You will be sent a 'Surcharge Liability Notice Extension' for an additional 12 months **each** time you do not send your return or pay your VAT on time. So to remove yourself from the penalty regime you must submit the next four quarterly returns on time.

If you keep failing to submit VAT returns HMRC may increase the estimated amount of VAT you owe them and base the increased penalties on that amount.

This surcharge system is to be replaced by a new stricter penalty regime, where separate penalties will be charged for late returns and late payments. The start date for these new penalties has yet to be announced.

The ANNUAL ACCOUNTING Scheme (AA)

The AA Scheme allows you to account for VAT by submitting one return at the end of the year. Monthly D.D. payments are made in the interim, based on the previous twelve months liability..

The balance of VAT payable is due two months after the end of the AA year.

The scheme has **positive cash flow advantages.** Paying VAT as you go helps to spread the burden and will have a less dramatic effect on your bank balance. The worry over submitting quarterly returns within one month disappears.

The danger is that the monthly payment remains the same so if your turnover increases during the AA year (or you take on another business) you could have a large debt at the AA year end.

Please seek advice from your Trade Accountant before entering the scheme.

Who can use the scheme?

- Businesses whose annual turnover (excluding VAT) is not expected to exceed £1,350,000; (£30,500pw).
- **Businesses whose returns and payments are up-to-date.**
- Businesses using the scheme may continue to use it until their annual turnover (excluding VAT) reaches £1,600,000.

The FLAT RATE Scheme

The Flat Rate Scheme offers you an alternative to the normal transaction based method of VAT accounting. It enables eligible Pubs and Bars to calculate VAT payable as a percentage of total turnover (but **will only be worthwhile** if you then pay less VAT per quarter).

Who can use the scheme?

Your turnover including VAT at 20% must be less than £3,462 per week, (£150,000 per annum ex VAT) to join the scheme. Once you have joined you can stay in until your total business income exceeds more than £230,000, (£5,308 inc.20% VAT per week).

The Flat Rate Scheme can reduce the VAT payable for Free Traders especially if they have catering and/or accommodation income.

The same applies to Tenancies, but usually only when the Landlord's rent is not set at a high level. Care must be taken should HMRC classify the "Public House" as a "Restaurant" in which case you would pay more rather than less VAT.

How does it work?

Under the normal VAT rules you have to identify the VAT on each sale you make, record the value and VAT separately and pay the VAT as OUTPUT TAX.

Similarly under the normal rules you have to identify the VAT included in the things your business buys, record the value and the VAT separately and claim the VAT back (on purchases) as INPUT TAX.

Under the Flat Rate scheme you do not have to identify the VAT on your sales and purchases to calculate the VAT owed. Your Trade Accountant simply applies the scheme percentage to your quarterly Turnover and that is the VAT payable, (you make no separate claim for Input tax).

Despite the simplicity of the calculation all business records must be maintained in the same way as if the business was registered normally.

The flat rate percentages are:

- 6.5% Public Houses
- 10.5% Hotels or accommodation

If you apply for the Flat Rate scheme when registering for VAT, you will get an extra 1% off for the first year. E g. Public Houses would be 5.5% the first year then 6.5% thereafter.

CASH Accounting

Under the cash accounting scheme you account for VAT on the basis of payments you receive and make.

Often this scheme will benefit a business that gives credit on sales made, but this is not the case in our industry.

Who can use the scheme?

If your annual turnover (excluding VAT) does not exceed £1,350,000 you will be able to join the VAT Cash Accounting Scheme. Pubs or Bars already using the scheme will be able to continue to use it until their annual taxable turnover reaches £1,600,000.

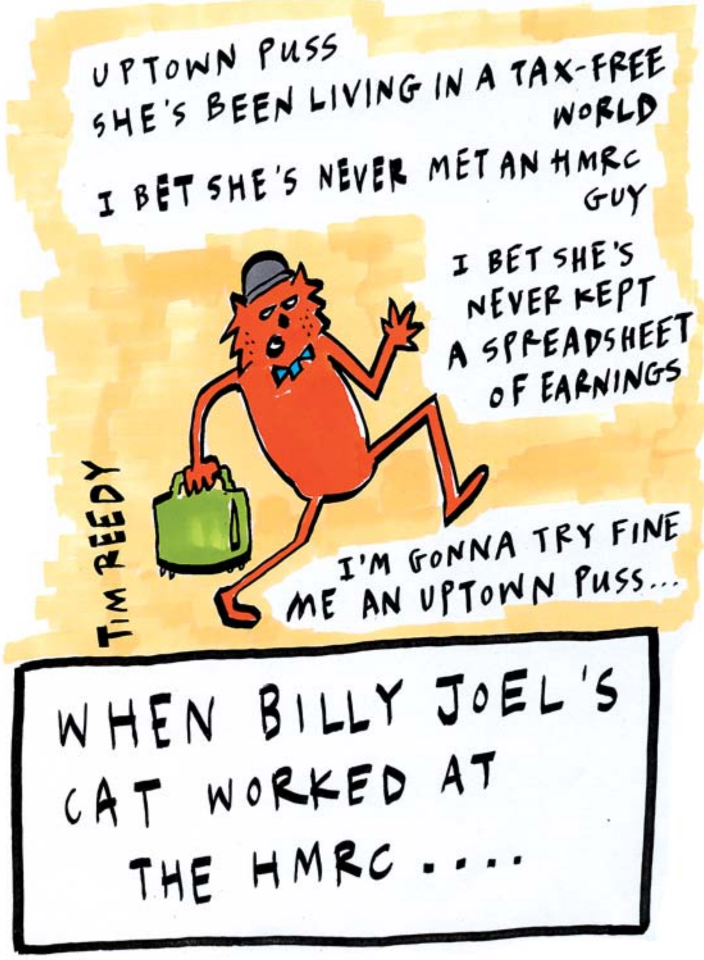
Fuel Scale Charge

For Sole traders and partnerships using the fuel scale charge is a way of accounting for output tax on road fuel bought by a business that is then put to private use. Inevitably operating A Public House does not involve high car mileage and very little private use.

For this reason it is rarely a saving to apply this scheme and far better to claim Income Tax on the VAT payable on business mileage.

The scale charge for a particular vehicle is determined by its CO_2 emissions figure. For cars which are too old to have a CO_2 emissions figure HMRC have prescribed a level of emissions by reference to the vehicles engine capacity (cc).

If the Public House trade is operated as a Limited Company different rules apply. Your Trade Accountant will advise you.



Visits to trading premises by HMRC Officers

'Control' visits occur to establish whether returns have been made correctly. Visits are becoming less frequent and could ultimately occur only when HMRC suspect irregularities.

Please remember that all your business documents and bookkeeping records will be required for a detailed inspection. HMRC can levy a penalty of £3,000 for any records which have been deliberately destroyed.

You should ask for the name of the officer who telephones you, the local VAT office from where he/she operates, and **inform your Trade Accountant before you agree** to a date for the control visit. Always ask to see the Customs Officer's identity card.

Now that VAT and other business taxes are all dealt with by one body (HMRC) visits by officers may deal with more than 1 tax e.g. VAT & PAYE.

Tax Investigation Insurance will cover your professional fees for dealing with these visits.

SUNDRY MATTERS

Pensions

The current state pension for a single person is inadequate to live on without drawing on, and possibly exhausting your savings.

Alternative pension arrangements should be made sooner rather than later whether you are young or nearing retirement age. Making pensions contributions is a "No1" tax saving tip but you should seek advice from an Independent Financial Advisor (I.F.A), so ask your Trade Accountant to recommend one.

You are not able to contribute into your workplace pension unless you trade as limited company and receive a salary.

Insurance

The importance of adequate insurance cannot be over-emphasised and indeed you may well be covered in areas such as buildings, contents, consequential loss insurance, etc. However other issues are all too often ignored through either lack of awareness or simply an over-optimistic outlook at one's future health and fortune:

- 1. Income protection;
- 2. Family insurance;
- 3. Sickness and accident — permanent health;
- 4. Hospitalisation cover.
- 5. Tax Investigation Insurance.

Your Trade Accountant should be able to make an independent recommendation

TAXATION

Self Assessment

Self assessment is a system for collecting tax which places the responsibility for declaring income and expenditure on the taxpayer.

Tax Returns

All relevant information for the year ended 5 April 2018 must be entered on the annual self-assessment tax return. Paper returns must be submitted by 31 October 2018 but submissions on line can be made up to 31 January 2019. **A fine of £100** is levied for late submission **whether or not tax is payable.**

A fine of £100 is levied on each partner if partnership returns are submitted late. Returns that are more than 3 months late will be charged a penalty of £10 per day up to a maximum of £900. If the return is 6 months late a further 5% of the tax due up to a maximum of £300 is charged. For a return which is 6 months late, therefore, the penalty due can be £1,300. (The unsuspecting taxpayer could become a cash cow for the Government).

Fines/Late Payment

Interest is added to tax paid after the due date (31 January or 31 July) and, if tax is not paid within one month of the due date, a penalty of 5% is added. A second 5% is charged on tax outstanding for 6 months and a third 5% for tax paid 12 months late.

HMRC Enquiries

HMRC conducts enquiries into taxpayers' affairs. These may be random and do not necessarily mean that irregularities are suspected. HMRC need not give reasons for their enquiry and **you should not contact them** before speaking to your accountant.

HMRC can make an enquiry in one of the following ways:

- **A compliance review.** This will normally be into a previous year's return and concern a specific entry which is suspected to be incorrect. HMRC would usually have evidence to support the enquiry. There is no time limit regarding these enquiries.
- **A full enquiry.** HMRC have to start these enquiries within 12 months of the date that particular return was submitted e.g. a 5 April 2018 return submitted on 30th September 2016 could only be opened for an enquiry by the HMRC before 29th September 2019.

Tax Investigation Insurance can be taken out to cover professional fees in dealing with HMRC enquires.

Tax Rates and Allowances

From 5th April 2018 the tax free personal allowance is £11,500. This allowance is due on income less than £100,000 per annum. This personal allowance is gradually reduced to nil at a rate of £1 for each £2 over £100,000.

The rates of tax applied to income above the tax free allowances are:

- £0 - £33,500 20%
- £33,501 - £150,000 40%
- Over £150,000 45%

Capital Gains Tax

The exempt band is £11,300 in 2017/18. The rates payable are:

- 18% if you are not a higher rate tax payer. The amount of the gain is added to other income (as long as this total is less than £33,500 this rate applies).
- 28% if you are a higher rate tax payer. If only part of the gain exceeds the threshold then only the excess is charged at this rate (with the rest liable at 18%).
- 10% for gains qualifying for Entrepreneur's relief. This relief is subject to a lifetime limit of £10 million. Entrepreneurs' relief is available on sale of qualifying business assets.

Inheritance Tax

This is a tax on the value of a person's estate on death and on certain lifetime gifts. The first £325,000 (nil rate band) is free of tax, but the way that Inheritance Tax is charge on trusts, lifetime gifts and some pensions is significantly different. The unused nil rate band can be transferred to surviving spouses.

Business and agricultural relief reduces the value of business assets and farmland for inheritance tax. On all unquoted businesses the relief is given at 100% and at 50% on assets owned privately but used in the business (e.g. freehold property).

It is advisable to seek legal advice if you are unsure whether this tax is due. More information can be found on the HMRC website www.hmrc.gov.uk

Corporation Tax

"Pay and File"

A corporation tax return must be filed at the HMRC no later than twelve months after the end of the accounting period. Payment must be made no later than nine months and one day after the end of the accounting period. Care must be taken for periods of over a year as returns can only be made for 12 months. Two returns are therefore needed and the time limit applies separately to each of these. Penalties are charged for late filing.

A signed copy of the company's accounts **must be delivered to Companies House** within 9 months of the company's accounting date. (A copy of the accounts and the tax computation must be sent to HMRC with the corporation tax return.

Corporation tax

Rate, currently 19%.

Marginal relief will be introduced at 5 April 2018 and may be applied retrospectively.

Capital gains tax

In calculating the chargeable gain, an indexation allowance is deductible, based on the increase in the retail price index between the month of acquisition (or March 1982, if later) and the month of disposal. (For Companies only).

Capital Allowances

Plant and Machinery

Annual Investment Allowance (AIA) is due on new or used assets purchased by a business. The allowance enables 100% of the cost to be reclaimed. The allowance is due on the first £200,000 of equipment purchased after 1st January 2016.

Any expenditure not qualifying for AIA will qualify for Writing Down Allowance (WDA) or Special Rate Allowance.

WDA allowance is 18% and the special rate asset allowance is 8%.

Enhanced Capital Allowance (ECA) is due on expenditure on equipment which is energy efficient and incorporates water saving technologies. ECA is due at 100% and is additional to AIA claims.

There are also special rules for short life assets, where the expected life span is not greater than 8 years. You need to discuss these rules with your Licensed Trade Accountant.

Cars

Expenditure for cars is not available for AIA. 100% allowance is due on new vehicles with CO_2 emissions less than 75g/km.

WDA available on cars depends upon whether the business is a Limited Company or not.

For Companies, cars with CO_2 emissions between 111g/km and 130g/km will be treated as part of the plant machinery pool and attract WDA at 18%.

There will therefore be no balancing allowance due on disposal. Cars with CO_2 emissions above 130g/km will be in a special rate pool where WDA is 8%.

For sole traders and partnerships, a private use pool of either 18% or 8% (dependant on whether the CO^2 emission are higher or lower than 130g/km) are maintained, thus making balancing allowances available on disposal.

If you are planning substantial expenditure you should discuss this with your Trade Accountant to ensure you understand how the new rules will affect your tax bills.

DISCLAIMER

For client advice please contact:-

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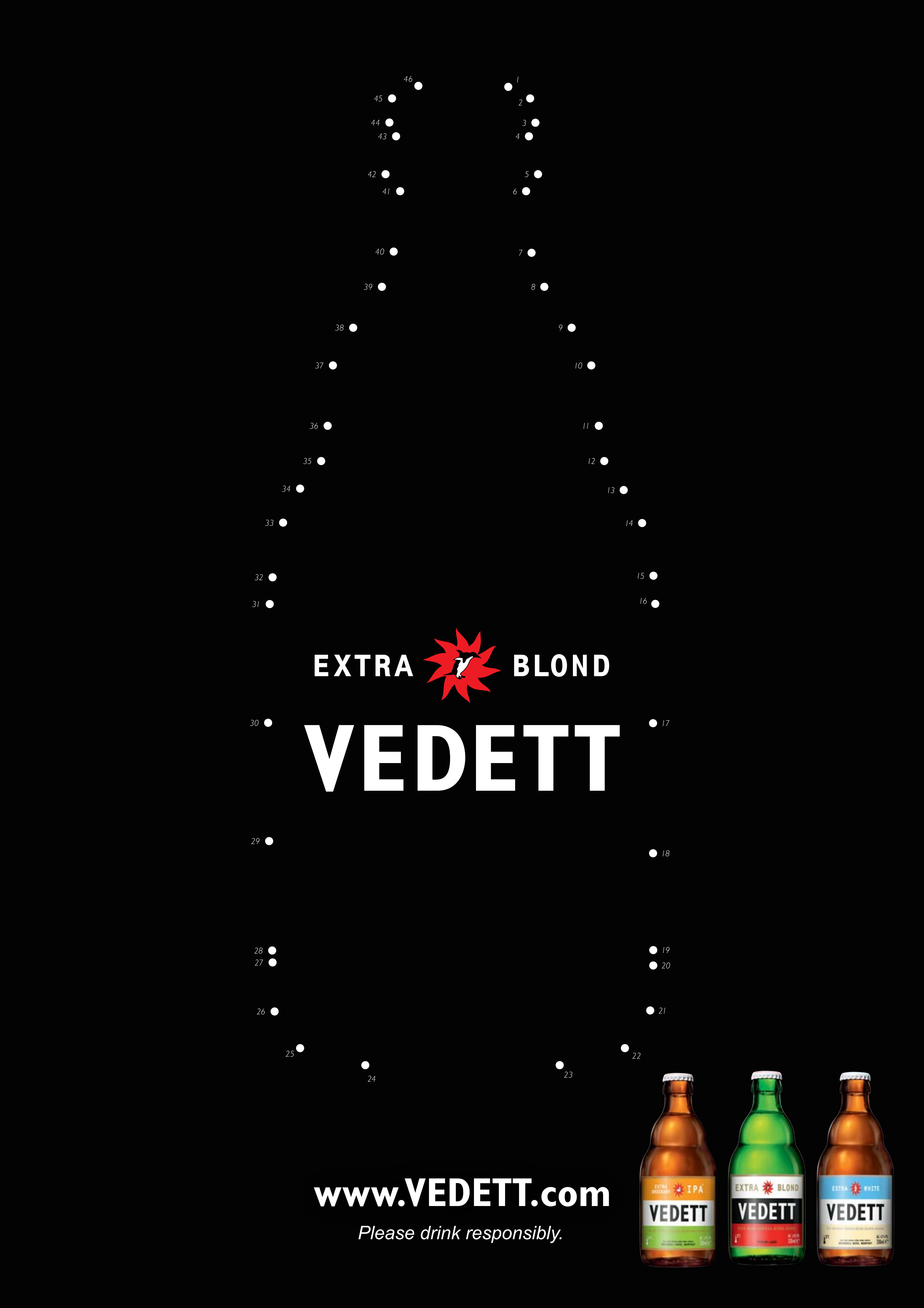
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