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Thompson Jenner LLP
Chartered Accountants

VAT flat rate – is it still worth it?

Changes to the VAT flat rate scheme mean some small businesses should reassess whether the scheme remains suitable for them. The scheme simplifies the way in which small businesses calculate their VAT liability, and it can also result in VAT savings.

Under the flat rate scheme, VAT is calculated by applying a flat rate percentage to the VAT-inclusive turnover and most input VAT on purchases is ignored. However, from 1 April, a flat rate of 16.5% has been introduced for 'limited cost businesses' (LCBs).

With the normal basis, a business would pay VAT of £200 on turnover of £1,000. A flat rate of 16.5% results in a liability of £198 (£1,200 at 16.5%) – virtually the same. For an LCB with even a modest amount of input VAT, the flat rate scheme is no longer attractive. You are classed as an LCB if the amount of goods you purchase are less than either 2% of your turnover or £1,000 a year (£250 a quarter).

Unfortunately, only goods count and these must be used exclusively for business purposes. There are numerous exclusions e.g. capital expenditure, promotional items, vehicle costs and food or drink for yourself or staff. Goods bought solely to meet the test are also excluded. Stationery, other office supplies, gas and electricity and cleaning products should count.

Defining your business

You have to determine your LCB classification for each quarterly or annual VAT period. So if your turnover or goods purchased fluctuate, you could find yourself alternating between the 16.5% rate and your normal trade percentage. If you are permanently classed as an LCB, you will probably want to leave the flat rate scheme.

You can still continue to use the cash accounting and annual acccounting scheme even if the flat rate scheme is no longer beneficial for you. This is particularly useful if you give credit to customers, because VAT is not accounted for until you receive payment. You do not have to pay VAT on bad debts.

The advantage of the annual accounting scheme is mainly administrative savings, because only one return is submitted each year. This should help traders avoid incurring penalties for submitting late returns. There are various qualifying conditions, but generally your turnover must not exceed £1.35 million and you must be up to date with your VAT returns and payments. We are here to advise you.

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Tax-free childcare: how does it work?

The government's new tax-free childcare scheme was finally launched this April – after a legal challenge resulting in a delay of over a year.

Initially, it will only apply if you have a child under four on 31 August. The scheme can, however, be used for all of your children once one child becomes eligible. The scheme will be rolled out throughout 2017 for other parents, who can sign up now for an email alert at www.childcarechoices.gov.uk.

Who is it for?

Tax-free childcare is available for working parents with children aged under 12 (or under 17 if they are disabled). For every £8 the parent pays in, the government will automatically add a further £2, so parents effectively get basic rate tax relief for childcare costs. The scheme can be used to pay for up to £10,000 of childcare costs per child each year, potentially saving some £2,000 – with the amounts doubled for a disabled child.

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Setting up an account

The tax-free childcare account must be set up online and can then be used for one-off payments or regular savings. Employers, grandparents, or other people can also pay into the account, which can be used to pay for childcare such as nurseries, nannies, childminders and out-of-hours school clubs. Crucially, the childcare provider must also be signed up with the tax-free childcare scheme.

Who qualifies?

Both parents need to be working, with average earnings equal to at least 16 hours at the national minimum/living wage. You are not eligible for tax-free childcare if you or your partner expects to earn £100,000 or more a year, and you cannot use tax-free childcare at the same time as childcare vouchers from your employer – so you may need to choose between the two schemes. Free childcare provision differs across the UK.

Scheme suitability

You should obviously remain in a voucher scheme if you don't qualify for tax-free childcare – where only one parent works, earnings are not sufficient or earnings exceed £100,000. Also, the voucher scheme is available for children aged up to 15, rather than just up to 12.

Tax-free childcare wins out for the self-employed, who cannot benefit from childcare vouchers, and others whose employer does not offer them. Unlike childcare vouchers, the help available under the tax-free childcare scheme increases with the number of children. You should therefore be better off opting for tax-free childcare if you have more than one child and high childcare costs. For others, the decision is more complicated and will depend on your tax position and amount of childcare costs.

Defining employment in the gig economy

The growth of the 'gig' economy has been controversial. Some workers like the flexibility of short-term contracts – giving them choice of when and where they work.

Others need the security of longer-term employment with guaranteed hours. Employers in some industries value the ability to engage the best person for each project. Others need a stable workforce.

Criticism centres largely on two areas: the lack of employment rights for workers, including the minimum wage, and the tax consequences of workers' self-employed status, especially lower national insurance contributions (NICs) and in some cases avoidance of VAT.

In July the government announced the setting up of a working party within the Department for Transport to enquire into the pay and working conditions of drivers for the taxi company Uber after claims that some were taking home as little as £2 an hour. Uber classifies its drivers as self-employed, but last year an employment tribunal decided that two drivers who brought a test case were working as employees, so were entitled to employment rights. The decision is under appeal.

Who is a 'worker'?

A review of the impact of modern employment practices, commissioned by the government and led by Matthew Taylor, has recommended a clearer definition of the intermediate employment law category of 'worker' – covering casual, independent relationships – who would enjoy limited employment rights. The review proposed renaming such individuals 'dependent contractors'.

Earlier, the food delivery firm Deliveroo announced that it would pay sickness and injury benefits to its riders if the law is changed. Deliveroo says it classifies its riders as self-employed to give them flexibility to work whenever they want, but they cannot therefore offer enhanced employment rights.

Deliveroo has recently changed its agreement with riders by removing a clause prohibiting riders from challenging their employment status at an employment tribunal. New clauses are clearly directed at strengthening the argument that riders are self-employed.

Whether a person is self-employed or an employee for tax purposes is determined by several factors. You can check whether an engagement is employment or self-employment by using HM Revenue & Customs' online employment status indicator at www.gov.uk/guidance/check-employment-status-for-tax.

The latest update to HM Revenue & Customs' advisory fuel rates, which can be used until 30 September, see just the single 1p petrol rate decrease from previous rates. Rates per mile are:

Engine size	Petrol	Diesel	LPG
1,400cc or less	11p	9p	7p
1,401cc to 1,600cc	14p	9p	9p
1,601cc to 2,000cc	14p	11p	9p
Over 2,000cc	21p	13p	14p

These rates can only be used where you either reimburse an employee who has privately purchased fuel for business mileage in a company car, or where an employee is required to repay the cost of company-purchased fuel used for private travel.

Who's in significant control of companies?

It's now simple for anyone to find out who really owns and controls a private company, even where shares are held in nominee names.

Unlisted UK companies now have to disclose to Companies House the names of all persons who have significant control over their ownership or management, and keep that information up to date. The requirement – in place since 2016 but widened from 26 June 2017 – is intended to improve corporate transparency and prevent money laundering and terrorist financing.

Register of PSCs

Since 2016, all UK unlisted companies and limited liability partnerships have had to keep a register of people with significant control (PSCs), and include that information on their annual confirmation statement. Unregistered companies and some listed companies have now been brought into this regime, and so have most Scottish partnerships – although with some modifications. Also from 26 June 2017, companies and LLPs have to update their PSC register within 14 days of any change, and send that information to Companies House within a further 14 days.

Identifying PSC's

Identifying a company's PSCs is often straightforward: it is any individual who owns more than 25% of the shares and/or voting rights, or has the right – under the company's Articles – to appoint or remove the majority of the directors. But it also includes any other individual who has the right to exercise or actually does exercise significant influence or control over the company.

Some companies have several PSCs; others may have none. A company that has no PSCs must still keep a PSC register, which must declare that fact. Companies must take all reasonable steps to identify its PSCs and contact them to obtain all the required information.

This consists of their name, date of birth, nationality, country of usual residence, service address, usual residential address if different and date they became a PSC of the company. It is a criminal offence if PSCs do not provide this information, and most of it will appear on the public register. The main exceptions are date of birth and residential address where a different service address has been given.

Companies must also keep the information up to date, for example if an individual's rights or shareholding changes, or if they change their address. Please contact us to help you meet the requirements for your business.

Preventing guilt by association

Businesses that provide advice to clients could be guilty of a criminal offence if they fail to prevent an employee or agent from facilitating or assisting tax evasion by others.

The managers or directors of the business might not have been involved or even aware of the employee's actions to be found guilty under the Criminal Finances Act 2017 (CFA), which received Royal Assent earlier this year.

The provisions of the Act will take effect from 30 September 2017 but many businesses have little awareness of them.

Financial services, accounting and legal businesses are the most likely to be affected, but other sectors are also at risk, for example businesses that pay large sums to consultants or engage casual workers and contractors.

The CFA is only concerned with evasion of tax – UK or non-UK – that is deliberate and dishonest, not tax avoidance or mere mistakes. Businesses have a defence if they have implemented reasonable prevention procedures or can show that it would have been unreasonable or unrealistic to expect procedures to have been put in place. Draft guidance from HM Revenue & Customs sets out six principles for businesses to consider:

- Risk assessment
- Proportionality
- Top-level commitment by senior management
- Due diligence
- Communication (including training)
- Monitoring and review

A written record of all procedures and risk assessments is essential. Businesses found guilty could face unlimited fines and serious reputational damage, so prepare for the new law now.

It can hurt at the margin

The 45% additional tax rate doesn't kick in until your income exceeds £150,000, but you could find yourself paying an even higher marginal rate of tax at a lower income level.

These high marginal rates occur because of the way in which various reliefs are withdrawn on a cliff-edge basis or are tapered away.

Take the personal savings allowance. This is £1,000 if you are a basic rate taxpayer, but the allowance is halved if you have just a pound or two of income taxed at the higher rate – losing maybe £100 of tax relief and resulting in a marginal tax rate of anything up to 10,000%.

Where your income is between £50,000 and £60,000, you might be in the position of having a child benefit claim tapered away – you actually pay a tax charge, but it comes to the same thing. The marginal rate will depend on the amount of child benefit, which is based on the number of children you have. With three children, child benefit is £2,501 a year. For each £1,000 of income between £50,000 and £60,000, you will lose £250 of benefit. Add in 40% higher rate tax and maybe 2% of NICs, and you have a marginal rate of 67%.

The effective marginal rate of income tax is 60% if your personal allowance is withdrawn because your income is between £100,000 and £123,000. Again, another 2% of NICs might also come into play.

Time for tax planning

At this level of income, you will probably want to consider some form of tax planning, especially if you have advance knowledge of your income level – which should be the case if you are an employee. You might consider a pension contribution. If aged 55 or over, you could immediately take back 25% tax free, so the effective net of tax cost for the remaining £750 invested from a £1,000 gross contribution would be just £150. Or maybe opt for additional holiday entitlement or shorter working hours rather than a pay rise.

To make matters even worse, at a roughly similar income level, you could also find yourself facing the cliff-edge withdrawal of the benefit from tax-free childcare (being introduced during 2017). When combined with a 60% marginal tax rate, that promotion or new job might suddenly lose its attraction once you work out the tax implications. Please get in touch if you think you may be affected.

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You can currently claim a 100% first year allowance if you purchase a new car with CO_2 of 75g/km or less. An 18% writing down allowance is available for cars with CO_2 emissions between 76 and 130g/km, with higher emission cars qualifying for an 8% allowance. The threshold for disallowing a proportion of leasing costs for leased cars is also 130g/km.

These thresholds are to be reduced to 50 and 110g/km from 1 April 2018. On a brighter note, the availability of the 100% first year allowance itself has been extended to 31 March 2021.

TAX CALENDAR

Every month

1 Annual corporation tax due for companies (other than large companies) with year ending nine months and a day previously, e.g. tax due 1 October 2016 for year ending 31 December 2015.

14 Quarterly instalment of corporation tax due for large companies (month depends on accounting year end).

19 Pay PAYE/NIC and CIS deductions for period ending 5th of the month if not paying electronically. Submit CIS contractors' monthly return.

22 PAYE/NIC and CIS deductions paid electronically should have cleared into HMRC bank account.

30/31 Submit CT600 for year ending 12 months previously. Last day to amend CT600 for year ending 24 months previously.

File accounts with Companies House for private companies with year ending nine months previously and for public companies with year ending six months previously.

OCTOBER 2017

5 Deadline to register for self-assessment for 2016/17.

14 Due date for CT61 return for quarter to 30 September 2017.

22 Pay tax and Class 1B NICs on PSAs (19th if not paying electronically).

31 Deadline for 2016/17 tax return if filed on paper.

NOVEMBER 2017

2 Submit employer forms P46 (car) for quarter to 5 October 2017.

DECEMBER 2017

30 Deadline to submit 2016/17 tax return online to have underpaid PAYE tax collected through the 2018/19 tax code.

JANUARY 2018

14 Due date for CT61 return for quarter to 31 December 2017.

31 Submit 2016/17 self-assessment tax return online. Pay balance of 2016/17 income tax, Class 2 NIC and CGT plus first payment on account for 2017/18.

FEBRUARY 2018

1 Initial penalty imposed where the 2016/17 tax return has not been filed or has been filed on paper after 31 October 2017.

2 Submit employer forms P46 (car) for quarter to 5 January 2018.

MARCH 2018

2 Last day to pay 2016/17 tax to avoid automatic 5% penalty.

31 Last few days to use any pension, CGT and IHT annual allowances and exemptions and to invest in an ISA in 2017/18.

APRIL 2018

6 New tax year 2018/19 begins.