dmc newsletter
SPRING 2018

WELCOME

DMC News

After months of rain, Spring has finally arrived and we have all enjoyed some glorious sunny May days, with the promise of summer still to come. Here at DMC we are pleased to welcome the new tax year and the challenges and satisfactions it may bring! We are also very happy to welcome Kim Edwards as a new addition to the Accounts Team.

News of Making Tax Digital

As mentioned in our last newsletter, MTD will be introduced from April 2019 for filing VAT returns where businesses have a turnover above the VAT threshold. In order to file the returns, updated commercial software may be required, alternatively application programme interfaces (APIs) will have to be attached to your own in-house accounting systems/spreadsheets. The software will need to be designed to extract relevant data from accounting records and then submit information to HMRC, equivalent to that currently filed through the 'nine box' submission made via the Government Gateway. Some businesses have to make partial exemption calculations; or are using VAT schemes; or need to make other adjustments often involving excel spreadsheets, so the new requirements may not be straightforward. We plan to assist you with regard to your software and record keeping options as matters develop over the course of the year.

Childcare schemes

It has been announced that there will be a six month delay to the closure of the Employer Supported Childcare scheme (this scheme is generally in the form of childcare vouchers). Therefore new schemes can still be opened until October 2018. This allows further time to discuss with your employees (or employer) whether this option is more beneficial than the newly introduced tax-free childcare account.

Training Costs

There is a current HMRC consultation to discuss the availability of tax relief to employees for self-funded training. At present this is only allowed if it forms part of a training contract. Otherwise the tax relief is only available to the employer, either for training costs paid on behalf of the employee or costs reimbursed to the employee. It is worth remembering that for sole-traders training costs are tax deductible only if deemed to be wholly and exclusively for purpose of the business. Essentially, this means that the acquisition of new skills is not allowed but updating existing knowledge is.

Payroll Matters

A couple of brief reminders for employers :-

- for the first pay reference period commencing after 1 April 2018 the National Living Wage hourly rates have increased as follows: Aged 25 and over £7.83;
  21 to 24 £7.37; 18 to 20 £5.90 ;
  Under 18 £4.20 ; Apprentice £3.70
- The auto enrolment contribution rates increased from 6th April 2018 to a minimum contribution level of 2% from employer, and 3% from employee. Please note that the employer can choose to contribute more, thus relieving the employee, as long as the overall percentage of 5% is met. Most auto enrolment schemes calculate contributions on the basis of qualifying earnings and from 6th April 2018 the earnings threshold has now increased slightly to £116 per week.

Rental Income

The loan interest restriction began last year and the greater restriction for 2018/19 is now impacting. Other changes such as the automatic adoption of the cash basis (unless an election is made for accrual accounting); the rules for spreading relief; the introduction of the £1,000 p.a. property allowance and its interaction with rent a room relief, mean that rental calculations can be complicated, do make sure you ask if you think any of these might affect you.

GDPR

The new General Data Protection Regulations are upon us – applying from 25th May 2018. You will no doubt have been bombarded with emails and letters from businesses requesting you give permission for them to continue to market their products to you.

Under GDPR, businesses are required to protect the personal data and privacy of individuals. It will apply where you are either a Data Controller (those who determine the purposes and means of processing personal data) or a Data Processor (those responsible for processing personal data on behalf of a controller).

Controllers must ensure personal data is processed lawfully, transparently and for a specific purpose. Once that purpose is fulfilled and the data no longer needed it should be deleted. In giving consent the action of the data 'subject' should be active and affirmative, the individual should be able to withdraw their consent at any time. For further guidance see the ICO website ico.org.uk

Business set-up costs

A good deal of planning, not to mention expense is often involved in starting up a new business. Before you start trading you will probably incur numerous expenses e.g. there might be premises to find, stock and equipment to purchase, plus a lot of other overheads. For tax purposes none of these are tax deductible unless and until the business starts to trade. For both companies, and unincorporated businesses, the tax rules say - pre trading expenditure is treated as if it was incurred on the first day of trading. This applies to expenses incurred up to seven years before trading commences as long as they were wholly and exclusively for the purpose of the business. There are special rules relating to the pre trading tax treatment of the cost of finance for companies, and for items such as stock or advance rent. The advice is to keep a record of all pre trading expenditure so that it can be claimed when your first accounts are prepared.

Buying or Selling a commercial vehicle

The Vat charged to you on the purchase of a new commercial vehicle is fully reclaimable, provided the business is not caught by partial exemption rules. (But note if there is private use of the commercial vehicle, the input tax claim must be apportioned). This contrasts with the purchase of cars, where input tax reclaim is blocked unless you can prove that the car is used ONLY for business purposes. For second hand vehicles purchases will usually be made under a 'margin' scheme and there will not be any input tax to reclaim. It is however possible to ask the dealer not to use the scheme, charge VAT in the usual way, and therefore VAT can be reclaimed. When selling a commercial vehicle on which you recovered VAT - you will need to charge VAT on the full selling price (even if partial exemption or private use restricted the input tax claim). If the vehicle was purchased under a margin scheme, or from an unregistered person, you can sell on under a margin scheme and only account for VAT on any profit made on sale (which is unlikely due to wear and tear….!)

VAT Flat Rate Scheme

A year has now passed since the introduction of the LIMITED COST trader rules. These prescribe a flat rate percentage of 16.5% for businesses with limited costs, such as consultants and other suppliers of mainly labour services. This rate applies to the gross value of sales and translates to an effective rate of 19.8%. In addition the calculations for the flat rate scheme are not always straightforward (e.g. exempt income is included in the calculations). With the effective rate at virtually 20 % and no ability to claim input tax, now is the time to consider changing to standard VAT accounting or possibly de registering if your turnover is below the deregistration threshold of £83,000.

If you want to discuss any of the issues raised in this newsletter please do call one of the partners on 01342 824181.

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