WHEELERS

WORDS

Wheelers Chartered Accountants and Tax Consultants

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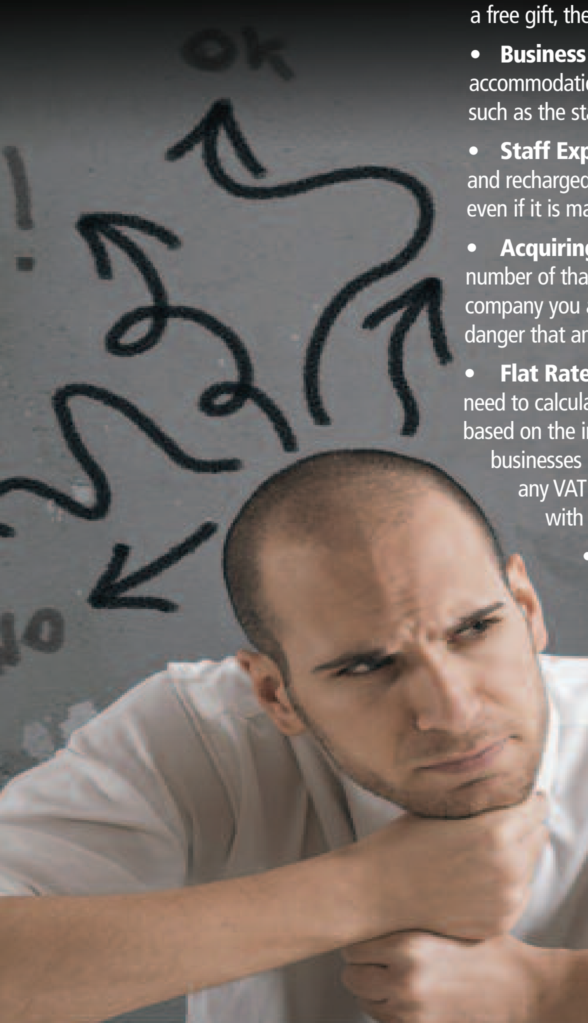
VAT: Common Misconceptions

Completing VAT returns is a weighty responsibility for any VAT-registered business and we find, again and again, that there are many misconceptions about the rules. HMRC is unlikely to accept ignorance as a defence and there are hefty penalties for incorrect returns. Here are our top ten common pitfalls that clients encounter:

- **Company cars:** if the company car is used for the commute to and from work, then HMRC will immediately disallow any VAT recovery on the purchase of the car. Even if the car is only used for business purposes, if it is insured for private use and kept at home, then HMRC are likely to deny any claim to recover the VAT. With business use only insurance policies being fairly hard to find, proving sole business use can be difficult.
- **Tax point:** a transaction's tax point is generally either when the goods or service is provided or when the invoice is issued – not when you get paid. However, if you are a small business and use the "cash accounting" method in respect of your business finances, then you can base your VAT return on payments rather than tax points. It is important to be aware of the rules if you accept deposits which may create an earlier tax point.
- **Insurance Premium Tax (IPT):** this tax is applied to general insurance premiums but is not VAT and so cannot be claimed back on a VAT return.
- **Personal use:** much like point 1 above, VAT on any item that is wholly for personal use cannot be reclaimed. If it is for both business and personal use, then the VAT can only be reclaimed on the business portion.
- **Part Exchange:** if you sell goods at a reduced price in a part exchange transaction, you must charge VAT on the full price of the goods before the part exchange was taken into account. However, if you provide goods at a discount or offer a free gift, then the charged figure is the one to use in your VAT calculation.
- **Business entertainment:** third party entertainment cannot be claimed back. This applies to meals, accommodation, attendance at events, etc. However, you can reclaim VAT paid in respect of employee entertainment such as the staff Christmas Party (but not if it is provided only for the directors or partners in the business).
- **Staff Expenses:** you can reclaim VAT on subsistence expenses and the purchase of road fuel paid by an employee and recharged to the business. You must refund the exact amount to the employee and get a VAT invoice from them, even if it is made out to the employee.
- **Acquiring a VAT-registered business:** if you buy a business, you may opt to keep the existing VAT registration number of that business. However, if you do want to go down this route, make sure you research the finances of the company you are buying because you would then inherit any overdue taxes from the original business. If there's any danger that amounts may be outstanding, you may be better to apply for a new VAT number.
- **Flat Rate VAT Scheme:** this scheme is designed to simplify VAT recording for small businesses by removing the need to calculate VAT paid and VAT charged. The VAT in a period is calculated by applying a specific flat rate percentage, based on the industry sector you are in, against the tax inclusive turnover of the business for the period. However, what businesses must bear in mind is that the flat rate is applied to the value of all your business in the period, including any VAT exempt supplies. For that reason, the flat rate scheme could result in you paying more VAT than you would with the original method.
- **Recharging expenses to customers:** this can be tricky to resolve. If you are charging a customer for a service that includes zero-rated elements, you need to ask if the element forms part of your supply. If it does (eg a train fare to visit a client which is part of your service to the client) then you need to charge VAT. If it does not (eg something you have purchased on their behalf and for their benefit), then it can be described as a disbursement and no VAT will be due on that element.



VAT is a complex area and it is a good idea to review your understanding and working practices on a regular basis to ensure that you are adhering to the rules and interpreting them correctly. If you would like to discuss VAT with us, please contact **Mary Plant** at **mary.plant@wheelers-accountants.co.uk** or call her on **01945 582547**.

Tax Notes

Child Benefit

The changes to the child benefit system have been in place since January 2013: families where one parent or their partner earns more than £50,000 per year will be liable for Child Benefit Tax, with those earning over £60,000 effectively losing the benefit altogether.

If child benefit is being claimed, the higher earner with income above £50,000 after certain deductions must complete a self-assessment tax return so that the tax can be levied. Failure to do so can mean that not only will the tax be payable, but there may well be interest and penalties to pay too.

For those earning over the £60,000 threshold, it may be simpler to just stop claiming child benefit.

Tax on PPI Windfalls

A staggering £10 billion has already been paid out to victims of PPI mis-selling, according to the Financial Conduct Authority's figures back in April this year, and the final bill to the financial services industry is expected to continue to rise for some time to come.

Whilst this is good news for consumers who were inadvertently drawn into signing up for PPI cover, there could be a sting in the tail if the recipient fails to correctly complete his or her self-assessment tax return. The compensation itself is tax free, but any interest awarded on the compensation sum is taxable and should be entered on the tax return.

Transferable Tax Allowances for Married Couples

The Government has recently announced that it plans to introduce a new piece of tax law that will allow couples to transfer part of their personal tax allowance from one spouse to the other. This will particularly benefit couples where one partner isn't using up his or her personal tax allowance.

The option will be available to married couples, same sex married couples and civil partners. However, it will not be available if either or both of the partners are higher rate taxpayers.

The plan is to introduce the option in April 2015 and for one partner to have the option to transfer up to £1,000 of their personal tax allowance to the other. The process will be managed online and couples who opt in to a transfer will be able to opt out again if they so wish.

For help with your personal tax planning or your self-assessment tax return, contact **Mary Plant** at **mary.plant@wheelers-accountants.co.uk** or call her on **01945 582547**.

Director Dividends: a word of warning

Many company directors use dividends as part of their remuneration package, but in these turbulent times when profits are challenged, it is important to ensure that the dividends are lawful.

The problem occurs if the company has insufficient distributable reserves or becomes insolvent. If dividends have been made in these circumstances, there is a real risk that they might have to be repaid. The law says that a company can only pay dividend distributions from distributable reserves, by which it means retained profits. Unlawful dividends can be reclaimed from the recipient up to twelve years after payment.

Dividends are often used in conjunction with director or shareholder loan accounts with directors drawing sums over the year, sometimes using an end of year dividend to repay the loan account. In law, directors' loan accounts over £10,000 must be disclosed to and approved by shareholders, although in many smaller companies this formality is often ignored – making the loan account itself potentially unlawful.

If the company fails and cannot issue the dividend – or if it pays a dividend unlawfully which is subsequently claimed back – then the director is left with a loan account on the balance sheet and the liquidator/shareholders will look to get it repaid.

Directors should, therefore, review their dividend/loan account strategy on an annual basis, ensuring it is justified given the profit from the previous year. In addition, they should make sure that any loan accounts over £10,000 have been properly approved by shareholders. If profit levels are being challenged, it may make sense to consider paying directors via a salary rather than a dividend – but make sure that the reasons for changing director remuneration strategies are properly minuted.

It's important that directors have written contracts of employment. This may allow them to take advantage of redundancy benefits from the Redundancy Payments Service in the event of the company becoming insolvent, potentially covering statutory pay in lieu of notice, redundancy and arrears of wages/holiday pay. The resultant payments may not be huge, but might prove a lifeline for a director who has just had to empty his or her reserves to pay back an outstanding director's loan account.

If you would like to discuss directors' dividend and salary strategies or have concerns about your company's dividend distribution, please contact **Andrew Cave** at **andrew.cave@wheelers-accountants.co.uk** or call him on **01945 582547**.

New Wheelers Website

The new Wheelers website went live in October. It contains a wealth of information for both businesses and individuals. You'll find it at www.wheelers-accountants.co.uk.

Not only will you find information about all aspects of tax, accounting, payroll, bookkeeping and all the other things that we do, you will also find a brand new feature: our Secure Data Exchange (SDE).

This feature allows us to exchange confidential data with our clients safely and securely. It uses what is known as "SSL Certification". This means that when you login to the service, it activates the padlock and uses the https:// protocol – as seen when you use online banking and payment services. This means that any documents we exchange with you are encrypted as they are transmitted. This facility will not only keep your data safe, it will also allow you to log in to view your financial documents all day, any day and provides you with a secure backup of your records.

If you would like to use the Secure Data Exchange, please go to our website and select the SDE button. You can then login and create an account. Once your details have been entered and submitted, the admin team at Wheelers will verify your account and you will be able to use the service.

A Little Bird told me....

Wheelers are now **tweeting!**

Those of you who are familiar with Twitter, the social media site, will be delighted to hear that we are now tweeting on a regular basis. It gives us a chance to share news, views, hints and tips with our followers. You'll find tweets about the latest news from HMRC and details about what's happening at the firm and in the local area.
Follow us at **@WheelersAccount.**

HMRC Report on RTI Reconciliation Problems

Real Time Information (RTI) has been in place for some months now and HM Revenue & Customs (HMRC) has reported that, in the main, tax liabilities and payments have been calculated correctly.

HMRC commissioned a report on the accuracy of the calculations following suggestions from employers that there were discrepancies between what tax the employer thought was due and the figure calculated by the taxman. What they found was that HMRC IT systems are indeed getting it right, but that there were a number of factors that caused the employer to expect a different figure.

Key causes of the supposed discrepancies included employer error as wages departments adjusted to the new regime and issues relating to the timing of updates to HMRC's Business Tax dashboard. They also identified Employer Payment Summary (EPS) returns, payments to leavers and issues relating to returns for the Construction Industry Scheme as factors that led employers to wrong conclusions.

However, the report also pinpointed problems with HMRC's support to employers in their contact centres during the transition period which led to some employers being given the impression that HMRC had indeed wrongly calculated the tax due, resulting in cases being referred for review without good cause.

The Business Tax dashboard has been the source of misunderstandings too, as employers have, on occasion, not given it sufficient time to be updated. HMRC reports that the "Amount due in period" will be updated between the 6th and 11th of each month if the FPS/EPS is received within the tax month that it is due. If the FPS/EPS is received between the 6th and 19th of the following tax month, the "Amount due in period" will be updated by the 12th or within two days of receipt, whichever is the later.

HMRC has produced new guidance to help employers calculate the employer charge, as well as improving knowledge in-house. The report does point out, however, that the number of charges being queried with their specialist team is less than 1% of the 1.6 million RTI-reporting PAYE schemes.

Our experience is that there have been many more problems than HMRC have admitted and we would be happy to take up any issues you have on your behalf.

If you have concerns about the accuracy of your RTI calculations, or would like to look at the possibility of using Wheelers' payroll bureau to pass the responsibility for payroll reporting over to our dedicated payroll team, please contact **Helen Garrett** at **helen.garrett@wheelers-accountants.co.uk** or call her on **01945 582547**.

Spam, Phishing, Viruses and Trojans

Cybercrime is becoming ever more sophisticated and we are being regularly warned against email messages that will try to either trick you into divulging personal and financial information (known as phishing) or which contain links or attachments that will download malicious software – clever "Trojans" that, like the fabled horse, hide a host of bad things that will invade and destroy your data.

Recent months have seen an increase in the number of such emails purporting to be from Companies House, HMRC or from banks. Emails will typically contain a button or a link to click to update your data or confirm your account details. Often the link or button will hide an executable file (.exe) that runs Trojan software. Sometimes it will take you to a web page that looks very like the genuine article, but which is a spoof page and any data you enter is sent to the cyber criminals.

RBS warned recently that one such malicious email doing the rounds would download software that would allow fraudsters access to their Bankline system. However, they were at pains to point out that the fraudsters did not have the power to make payments from the hacked account as this requires a challenge code from a smart card reader, which is known only to the account holder.

The moral of this story is that you should never divulge PIN numbers or card reader codes to anyone, not even your bank, either online, on the telephone or in person. Real representatives from your bank will never ask you to do so. Equally, you should never click on a link or open an attachment in an email unless you are absolutely sure it has originated from a safe, known source.

Malware emails that purport to come from Companies House or HMRC may look convincing and may ask you to confirm information about yourself or your business. You should never disclose personal or payment details or your HMRC User ID and password. Both HMRC and Companies House provide an email address to which the suspicious email can be forwarded on their websites:

phishing@companieshouse.gov.uk
phishing@hmrc.gsi.gov.uk

If you have any concerns about an email you receive, forward the email to the body concerned then delete it. The best advice is to be on your guard and suspicious of any email that appears to be from a Government department or financial institution.

Agricultural Wages Board has gone: **what next?**

The abolition of the Agricultural Wages Board happened on 30 September as planned. Farmers throughout the UK are now obliged to work to the same rules as all other employers.

What this means is that farmers must offer at least the National Minimum Wage to any new employee starting after 1 October 2013. The minimum levels for pay for workers identified at specific grades in the Agricultural Wages Order (AWO) 2012 will no longer be applicable, and farmers are not required to offer employment contracts that meet AWO 2012. However, they must make sure that they comply with national employment law.

The reality is that the market will dictate the wage level applicable to any potential employee, according to their skills and experience.

Workers who were already in Agriculture on 1 October should see no difference to their pay and conditions and AWO 2012 continues to apply. Any change to the employee's terms and conditions of employment must be properly negotiated with the employee and their agreement sought. Farmers can't increase or decrease their employees' pay without getting their agreement.

If you would like to know more about the changes to agricultural wages, please contact **Robert Booty** at **robert.booty@wheelers-accountants.co.uk** or call him on **01945 582547**.

New National Minimum Wage

The annual increase of the National Minimum Wage (NMW) came into effect on 1st October 2013. For those aged 21 and over, it now stands at £6.31 per hour, up 12p from last year's rate. The rate for those aged 18 to 20 is £5.03 and for the under 18s, it is £3.72.

Apprentices aged under 19 or in the first year of their apprenticeship have a minimum rate of £2.68 per hour but apprentices over 19 and past their first year get the rate that applies to their age.

Although lower than inflation rates, the increases are higher than current average pay growth. Employees in all businesses, irrespective of the hours they work or the size of the business, are entitled to the NMW. Employers who do not comply with the NMW regulations face severe penalties.

If you have questions about the National Minimum Wage or other payroll queries, please contact **Helen Garrett** at **helen.garrett@wheelers-accountants.co.uk** or call her on **01945 582547**.

Staff News

We held a double celebration in August this year when two of our staff members – **Pat Patterson** and **Jo Warren** – celebrated twenty-five years' service with the firm. The whole firm took time out to celebrate the milestone over a lunch at the Rose & Crown Hotel.

The event also marked Pat's retirement and we wish her all the best for a long and happy one!

Photo: Wheelers Partners with Pat Patterson (front left) and Jo Warren (front right)

Congratulations go to **Amanda Rumbelow** in our Corporate Accounts and Audit team who has been awarded a fellowship of the Institute of Chartered Accountants – the highest accolade in the profession. Well done, Amanda!

We've welcomed two new team members since our last newsletter: **Nina Waymont** is assisting our corporate clients with audit and assurance services and **Philip Venn** has joined our Tax Department.

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