DavisGrant

CHARTERED CERTIFIED ACCOUNTANTS
REGISTERED AUDITORS
TAX & BUSINESS ADVISORS

HOW WE HELP

Plain English Answers to 20 Frequently Asked Questions

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Is this guide for you?

Running a business, or just having to pay tax, can trigger anxiety, confusion, dismay and anger. For many of these challenges you may have no immediate remedy or feel helpless.

Sound familiar?

During our many years helping people like you, many concerns come up time and again. We have therefore compiled this booklet that summarises 20 most frequently asked questions.

The answers we have provided should not be considered final advice. There is no substitute for a face-to-face consultation. Your question may be clear enough, but the course of action you should follow will depend not only on your immediate concern, but also on your specific business or financial circumstances.

This booklet highlights the issues that you will likely need to consider and outlines how we can help you to resolve them.

We hope you find it useful. Please contact us if you need more information on any of the topics raised.

About Davis Grant

Davis Grant is a progressive and forward thinking firm who combine the experience and knowledge of a trusted advisor with a first class professional service.

Established for over 50 years, Davis Grant ensure that each and every client receives and values a bespoke service, provided by a quality, highly trained and enthusiastic team, led by the four directors: Barry Chernoff, Neil Driver, Jay Gandesha and Steven Sandford.

Our focus is to provide clients with useful, relevant and meaningful advice that supports and guides a business from incorporation to exit. As well as conventional proactive services such as tax planning, cash flow forecasting and management accounting.

From start-up companies requiring hands-on mentoring to keep their business on-track, or assistance with the implementation of share investment schemes, to large corporate companies requiring boutique tax planning, estate management and further wealth creation, Davis Grant are able to offer a service which will be tailored to your individual needs and continually exceed your expectations.

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20 QUESTIONS

Q1. How much are your fees?

Q2. Do I need to register for VAT?

Q3. Should I buy or lease a company vehicle?

Q4. Can I involve my spouse in the business?

Q5. Can I involve my kids in the business?

Q6. What expenses can I claim?

Q7. Why am I paying tax? I don't draw any wages?

Q8. How much should I put by to cover tax bills?

Q9. What's the best way to take funds from my company?

Q10. Should I be a sole trader or limited company?

Q11. Where's my profit? It's not in the bank.

Q12. What business records should I keep and for how long?

Q13. Why do I need help when closing down my company?

Q14. Should I run my buy-to-let business through a limited company?

Q15. Is tax relief being cancelled for buy-to-let mortgage interest?

Q16. Why do I need to keep a mileage log?

Q17. When can I claim back overpaid tax?

Q18. Are there any tax-free perks?

Q19. Why am I paying tax in advance?

Q20. What happens if I can't afford to pay my tax?

Q1: How much are your fees?

Let's get the big question out of the way before we get into the detail of tax and business related questions.

We know that you are understandably concerned to know how much we are going to charge for the work we are tasked to do on your behalf. If the work can be quantified prior to commencement – for example preparing a set of accounts or a tax return – we can usually quote **a fixed fee**.

We can also quote, in advance, for more proactive advisory services such as tax or business planning or consultancy where the scope of the services we need to provide is known from the outset.

If we are unable to ascertain the amount of time we will need to commit in order to achieve a result for clients, then we can generally set up sign posts for the project and agree fees on a staged basis.

Whatever basis we use to negotiate fees with you **we will always communicate the value of the service we are about to provide**. Sometimes we can do this by literally pointing out cash savings we can achieve, for say tax planning, or by the savings in time that you will have to concentrate on running your business if we take over a particular chore. In some cases, it will be evident that we are helping by removing anxiety or concerns by taking on work for you.

If you need help, simply call us to chat through your needs. All initial discussions are in confidence and **free of charge**.

We will recommend a solution tailored to you and our fees will always be clearly stated and agreed.

Q2: Do I need to register for VAT?

From 1 April 2016, you are not required to register for VAT until your business turnover (money taken in) is more than £83,000.

You may want to consider registering voluntarily before you hit this level as it will allow you to recover the VAT you pay on purchases of trading goods, expenses, or equipment. That said, you may be able to claim back VAT retrospectively at the time of registration.

Registration for VAT imposes strict compliance responsibilities, including the following:

- You have to charge the right amount of VAT – usually, but not always, 20% of the sales value.
- You have to pay over any VAT collected on or before determined payment deadlines.
- You have to submit regular VAT returns.
- You will also have to keep VAT records including a VAT account.

There are special VAT schemes that allow you to calculate the amount of VAT due based on:

- A single flat percentage rate applied to your turnover including VAT.
- Special schemes for retailers.
- Payment of VAT when you are paid by your customers, not when you issue a VAT invoice.

All of the above schemes require that your business submit a quarterly return to HMRC. You can also elect to submit an annual return and make regular payments on account.

We can prepare and submit VAT returns for you or help you get started with book-keeping software that will automate the process for you.

Q3: Should I buy or lease a company vehicle?

First, let's look at the options. They are to:

1. Buy the vehicle outright, perhaps with assistance from your bank.
2. Buy the vehicle using hire purchase.
3. Lease a vehicle.
4. Contract hire.

You will need to consider commercial factors, including:

- What is the current state of your cash flow? Do you have enough head room in your bank account to pay for a vehicle outright?
- Does the vehicle dealer offer special rates for hire purchase?
- Whichever scheme you consider, apart from an outright purchase, you will likely have to make an up-front payment followed by monthly payments. Are these affordable? Will your cash flow support these payments?

The legal considerations:

1. If you buy outright, or use hire purchase, you own the vehicle – although the finance company may be able to repossess if you fall behind with the finance repayments.
2. If you lease or contract hire, the vehicle does not belong to you, it belongs to the finance company.

Finally, what are the tax consequences?

- If you are buying a commercial vehicle tax allowances are much more generous. In most cases you should be able to recover any VAT included in the purchase price if you buy outright or use hire purchase finance. You may also be able to write off the full cost of the vehicle in the tax year that you buy.
- If you are buying a car, tax allowances are restricted to an annual writing down allowance. This will be 8% or 18% depending on the car's CO_2 emissions.
- If you are self-employed or work for your own company, there may be tax adjustments or benefits charged to reflect any private use of the vehicle.
- If you are renting the vehicle, the rental or contract hire costs will be tax deductible, less any adjustment for private use. If you are leasing, and you are VAT registered, you will only be able to recover 50% of the VAT added.

Before making a buying decision you will need to juggle all of the listed factors, and possibly more. We are used to working with you to find the best option for your circumstances.

Q4: Can I involve my spouse in the business?

There are obvious advantages: splitting income to take advantage of two basic rate income tax bands and access to doubled up capital gains tax reliefs if you sell up. **Proceed with caution and take professional advice** before formalising arrangements.

If you are self-employed, what about making your spouse a partner? The issues you will need to consider are that:

- You will need to prepare and sign a partnership agreement.
- Your agreement will likely mean that your spouse will have a formal claim to a share of the business profits and a share of any proceeds should you sell the business.
- It will be difficult to convince HMRC that there is a real partnership if your spouse has no formal role inside the partnership.

If you have an existing limited company, you cannot simply transfer or issue shares to your spouse and split dividend payments between you. HMRC may seek to treat the issue or transfer of shares as a settlement. If they do, any dividends paid to your spouse will be taxed as if you had drawn them, negating any tax advantage. Issuing shares to your spouse may be an effective strategy, but to make sure the arrangement will be accepted by HMRC certain planning objectives need to be put in place. Again, take professional advice if you would like to explore this strategy.

The required steps depend on your personal circumstances: there are issues of control and ownership to consider as well as any possible tax benefits.
Talk to us. Any investment in pre-planning will more than payoff in the long term.

Q5: Can I involve my kids in the business?

Each child is entitled to the same income tax personal allowance as their parents. They also qualify for the same capital gains tax allowances and reliefs.

When involving your kids or spouse, it is key is to make sure that any involvement is commercially justifiable. For example, paying your ten-year-old £6,000 a year for bookkeeping support will not pass muster with HMRC. You should always aim to pay realistic rates for the job undertaken and ensure that the tasks are manageable.

If you transfer shares in your company to children under 18 years, any dividend income in excess of £100 will be taxed as if received by a parent.

We are often asked if children can be paid salaries or dividends as a contribution to school or university fees. The short answer is that as long as you are mindful of the basics, you could make these payments, provided that:

- Any salary payments are commercially sound,
- The payments must be made from the business to your children in the first instance, and,
- Any dividends paid are to children aged 18 years or over.

Then the cash they receive can be used however they, or you, see fit.

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Transferring shares or other trading assets to your children is a chargeable event for capital gains tax purposes, but there are reliefs you could claim to defer any tax payable

Q6: What expenses can I claim?

We have summarized below a few of the most commonly accepted expenses you can and cannot claim for. But, before we consider these, we need to introduce you to a tax concept that rules HMRC's opinion as to what can, or cannot be claimed for tax purposes.

The concept is "wholly and exclusively". You can claim for most expenses that are incurred wholly and exclusively for the purposes of the trade. Unfortunately, most of the decision making by HMRC on this topic is guided by tax law, which has been inconsistent.

That aside, the following will provide you with guidance in areas where the outcome is reasonably predictable:

1. Professional fees, your accountant for example: allowable in most cases unless the fees relate to:

- The purchase of a property or other business asset (in which case they can be used to reduce any capital gains tax liability when the asset is sold).
- The costs of settling tax disputes.
- Fines for breaking the law, for example, parking or speeding fines.

2. Entertaining: even though entertaining produces new business, pretty well all expenditure under this category is deemed a non-allowable expense for tax purposes.

3. Motoring costs: the costs of running a business car for business related journeys are allowable. The costs of private motoring with a business vehicle are not. Home to work journeys are generally considered private.

4. Travel expenses: All business related travel costs are allowable. Home to work travel costs are not tax allowable.

5. Bank and credit card charges: bank charges and bank interest charges on loans or overdrafts taken out for purely business purposes are tax allowable. The capital repayments of these loans are not.

6. Cost of goods: goods bought for resale by your business, or that are consumed during the day-to-day business activities are tax deductible, goods taken for private use are not.

7. Cost of assets: the cost of plant, vehicles and equipment purchased for business use is held on your balance sheet as assets. The cost is gradually written off against your profits by making a depreciation charge – this writes off the asset cost over the useful life of the asset. Even though this depreciation charge is a reduction in profits it is not allowed as a tax deduction. Instead, HMRC grant a capital allowance, which can vary from 8% to 100% of the allowable asset cost, or its written down value for tax purposes if you acquired the asset in previous years.

8. Bad debts: if a customer fails to pay an invoice and the debt is considered irrecoverable the sales value can be written off for tax purposes. Debts relating to assets or general provisions for bad debts are not allowable.

9. Rents, rates and other costs associated with business premises: All costs allowed unless they refer to the purchase or sale of the property or if any part of the property is used for private purposes. In this case costs would need to be apportioned.

10. Phone, internet and other office costs: all allowable unless there is any significant private use.

11. Repairs to equipment or business premises: all allowed unless the costs are an improvement.

12. Wages, salaries and employer's NIC costs: are allowable unless they are the self-employed owner(s) drawings (see Question 17). Similarly, self-employed pension payments or owners NIC costs are not an allowable deduction from business profits, although pensions payments may be claimed as a deduction on your tax return and are allowable in Limited companies.

Continued Over...

Q6: What expenses can I claim? (continued)

There are also a raft of expenses that would seem to genuine business costs, but are **disallowed** as they fail the "wholly and exclusively" (W&E) rule mentioned at the beginning of this section. For example:

- **Clothing**: if you are required to wear and provide a uniform or other protective clothing this would normally be an allowable deduction for tax purposes, as would the laundry costs for such items. If, however, you are required to wear an item of ordinary "civilian" clothing, to a certain standard, this would fail the W&E test, and none of the cost would be allowable.

- **Subsistence**: generally, the costs of lunch would fail the W&E test, after all we have to eat to live. However, if you are required to travel away from your normal place of business, any additional, and modest costs, for meals, sandwiches etc. would be allowable.

- **Business use of home**: a modest claim for the use of a room at home would be allowed. The claim would need to be calculated as the time apportioned total of household running costs (including mortgage interest or rent). Excessive claims may subject the eventual sale of owner occupied property to a capital gains tax charge.

If you feel that an expense should be allowed by all means call and we will confirm its status for tax purposes. As a rule of thumb, apply the W&E test, if it fails, can the expense be apportioned to exclude any private use?

Q7: Why am I paying tax? I don't draw any wages?

Self-employed persons are not considered to be paid by their business. Instead, they are entitled to draw against the profits they make.

Accordingly, even if a proprietor, or business partner, draws no "wages" from their business they may still pay income tax.

Why is this? Example Case:

Jenny is a self-employed plumber and has made taxable profits in her first year of £21,000. To support Jenny, her partner Tom agreed they could live off his earnings for the first year to give Jenny time to establish her business. Much to her surprise, she discovered that she owed £2,000 income tax plus Class 4 NIC, even though she had taken no wages or drawing from the business.

This is because she is taxed on her taxable profits, not her drawings.

The reverse situation can also occur. Let's say that Jenny traded for 10 years and during that time always retained profits in her business. In her last year, she made only £12,000 profit but accumulated profits after tax of £20,000 were in her bank account. On the last day of trading, Jenny transferred this £20,000 to her private bank account. This time, Jenny had no tax to pay in her final year, so the £20,000 was hers to keep...

Planning for tax payments is a critical task for the self-employed. Making sure you maintain your drawings at a realistic level to ensure you have funds available to meet your tax liabilities is essential. We can help.

Q8: How much should I put by to cover tax bills?

Whether you are self-employed or have your own company your periodic business tax payments will always be based on the yearly trading profits and other chargeable gains made, plus any capital profits.

If you run your business through a limited company, corporation tax payable on adjusted business profits (after allowances for capital purchases) is payable 9 months and one day after your year-end date. Accordingly, corporation tax due for the accounting year to 31 March 2016, will be due for payment 1 January 2017.

As a quick fix, you could transfer between 15% and 20% of your monthly profits to a deposit account to partly cover this liability.

If you are self-employed, your business profits will form part of your self-assessment tax return. The amount of tax you will pay is split into two instalments on account, and a balancing adjustment if necessary.

In order to reserve cash for your self-assessment tax payments, the maths is more complex. Your best option is to deduct from the trading profits you make £1,000 per month (being your approximate income tax personal allowance) for each business partner, and a proportion of what's left in line with income tax rates. For example 20% of profits around £30,000, 25% of £50,000 or 33% of £100,000.

Transfer this reserve amount to a deposit account. This will only provide the funds to pay tax on your business profits. If you have other taxable income this will have to be factored in.

Planning for tax payments is a critical task for the self-employed or incorporated business owner. The calculations can be somewhat complex so be sure to seek professional advice. There is nothing more disheartening than an unexpected tax bill when your bank account is empty!

Q9: What's the best way to take funds from my company?

The comments in this answer will only be relevant to incorporated business owners. **There are many ways a director/shareholder can take funds from their company.** The five most commonly used are to:

1. Draw a salary. This would possibly be subject to PAYE and National Insurance deductions for the director and NIC contributions for the company.

2. Take a dividend based on shareholding. Prior to 6 April 2016, dividends were paid subject to a 10% tax credit which (somewhat confusingly) covered any basic rate income tax liability. From 6 April 2016, it has all changed. Now, the first £5,000 of dividend payments are tax free. Dividends received in excess of this amount are taxed at 7.5%, 32.5% or 38.1% depending on where the dividend falls to be taxed: at basic rate, higher rate or the additional rate.

3. Be paid interest on any funds they may have loaned to the company.

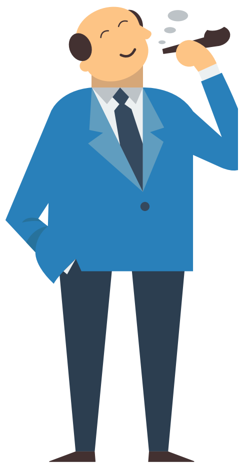
4. Have the use of company assets, say a company car.

5. Borrow funds from the company.

Each option has consequences from a tax point of view.
In order, they are:

1. Draw a salary. For directors under the State Retirement Age, the major disadvantages of taking a high salary are the employers and employees NIC charges. For this reason, many directors have adopted a low salary – for 2015-16 as low as £8,060 – that still secures qualifying years for the State Pension, but minimises NIC liabilities.

2. Take a dividend. Up to 5 April 2016, it was accepted practice to utilize any spare basic rate band by voting dividends. In this way shareholders could access company funds with no further income tax charge. If you may remember, any basic rate tax up to this date was covered by the 10% tax credit. From 6 April 2016, it is a very different story. Dividends drawn after this date are only free of income charges up to £5,000. After that the additional rates listed above will apply.



3. If a director has loaned significant amounts to the company, they can be paid interest on the loan by the company. If the interest is below the new Personal Savings Allowance - £1,000 for basic rate tax payers, or £500 for higher rate taxpayers – the director will receive this interest payment tax free.

4. Using company assets, a car for example, will create a benefit in kind charge for the director and an additional NIC charge for the company.

5. Borrow funds from the company. This is perhaps the least effective strategy from a tax point of view, as both the company and the director will be vulnerable to additional tax charges.

Because there are a number of variables to consider, planning an effective funds withdrawal program with us is essential!

Q10. Should I be a sole trader or limited company?

This really is a question that very much depends on your individual circumstances. Your attitude towards personal liability and risk may influence your decision as much as the tax implications.

Sole traders are taxed on their profits at income tax rates that can rise, for taxable income in excess of £150,000, to 45%. Income tax is levied, whether or not the profits are withdrawn or retained in the business.

Contrast this with an **incorporated business**. Here, profits of the company will be taxed at corporation tax rates, currently 20%, and any profits retained in the business will be subject to no additional tax charge. This final point illustrates one of the major advantages of running a profitable business inside a limited company structure.

For example, if A Ltd made trading profits of £50,000 and the director/shareholder, John, was paid a salary of £8,060 and a dividend of £16,000, this would leave profits in the business of £17,552. The company would pay tax of £8,388 and John would have a small amount of dividend tax to pay amounting to £605. A combined tax cost of £8,993.

If we assume instead, that John was a sole trader, his combined tax and NIC bill would be £12,631.

From a tax point of view, therefore, trading as a limited company makes sense if the business is profitable and the business owners can afford to leave retained profits in the business.

Remember, not all of the considerations that impact this question are taxed based. Other factors could include:

- Are the additional professional costs of running a company worthwhile?
- What happens when the shareholders want to extract retained profits from the company?
- Will prospective customers be more likely to deal with a limited company?
- Do you want the protection from commercial liability offered by a limited company?

If you want to consider your options, including one not mentioned above – reverting to a sole trader status – we can help. To organise a free fact-finding session please call us.

Q11. Where's my profit? It's not in the bank.

This is a question we are regularly asked by clients. Usually, the conversation is triggered when we discuss the end of year accounts.

Before we explain why profits are not always represented by cash in the bank, we need to define the term "profits". Profits are the difference between what you sell and the costs associated with making those sales.

Consider Jeremy, who runs a small shop selling clothing. He started his businesses by introducing £5,000 of his own money and at the end of his first trading year his summarised results were as follows:

- Sales £100,000
- Goods purchased and sold in the year £60,000
- Other costs paid for in the year £15,000
- Stock at end of year valued at cost £7,000
- Drawings for personal use £16,000
- Bank balance £7,000

His accounts show profits of £25,000. This is made up of sales of £100,000, less cost of goods sold of £60,000 and less other costs £15,000.

So why, Jeremy asks, is there only £7,000 in his bank account?

The answer is that at the end of the year Jeremy had withdrawn £16,000 for his own private use and he had purchased £7,000 of stock that was unsold at the end of the year. We also need to take into account that Jeremy introduced £5,000 of his own cash when the business started.

The reconciliation of his profit and the bank balance is therefore:

- Profit for the year £25,000
- Less personal drawings £16,000
- Less stock £7,000
- Plus own capital introduced £5,000

Equals £7,000 – his business bank balance.

In order to really understand profit and cash flow you need to look at factors that are not taken into account when calculating any profit for the period. In Jeremy's case this was his capital introduced, stock at the end of the year, and his personal drawings.

If you are still confused please just ask us in person. We are always happy to help, understanding the finances of your business is critical to achieving your goals.

Q12. What business records should I keep and for how long?

You need to keep records that underpin any accounts prepared for your business, and any tax returns you have submitted to HMRC.

Records you will need to keep include proof of sales and business income, all business expenses, VAT records if you are VAT registered, payroll records if you employ anyone, and also records of your personal income. This includes: all receipts for business and stock purchases, bank statements and chequebook stubs, sales invoices, till rolls and bank paying in slips.

If your business is a limited company, you must also keep records of your directors and shareholders and other statutory information.

Most small businesses use accounts software to record their business transactions. If so, care should be taken to keep copies of each year's accounts data.

How long should this information be kept?

If you are self-employed, you should keep records for 5 years after the filing deadline for a particular tax return. For example, the filing deadline for the 2015-16 self-assessment tax return is 31 January 2017, so you should keep records until 31 January 2022. If you send in your return more than 4 years after the filing deadline, you will need to keep records for 15 months after you submit the return.

If you run your business as a limited company, you should keep records for 6 years after the end of the relevant accounting period.

We can assist business owners and taxpayers with the installation of accounts software, if required, and determine what should be kept and for how long in order to comply with the above requirements.

Q13. What do I need to consider when closing down my limited company?

If your company has stopped trading and has paid all its debts, submitted and agreed any tax returns, and closed its bank accounts, it becomes dormant.

Entering into a formal liquidation process is expensive so it is tempting to just make an make an application to Companies House to have the company removed from the active register.

We can help you ensure that all necessary steps are taken to avoid unnecessary problems that can arise in the future.

There are safeguards for third parties who are likely to be affected by a company's dissolution.

If your company has creditors, members etc., you should inform all the necessary people, as any of them may object to the company being struck off.

You must also make sure you have dealt with any loose ends, such as closing the company's bank account or the transfer of any domain names before you apply.

You may notify any other organisation or party who may have an interest in the company's affairs, otherwise they might later object to the application. For example, HMRC, local authorities (especially if the company has any obligation involving planning permission or health and safety issues), training and enterprise councils and government agencies.

From the date of dissolution, the company's bank account will be frozen and any credit balance in the account will pass to the Crown. Any assets of a dissolved company will also belong to the Crown.

One final point, even if your request for removal from the active register of companies is accepted, disgruntled creditors and other interested parties can still apply to the courts to have the company reinstated.

We are experts in this type of de-listing of dormant companies. If you need help please simply give us a call.

Q14. Should I run my new buy-to-let business through a limited company?

If you are about to start your buy-to-let business, then a limited company may be a suitable vehicle for your enterprise.

Advantages:

- Companies are not affected by the planned withdrawal of tax relief for finance costs (see Q15)
- If you can afford to retain surplus profits inside the company, the only tax payable is 20% corporation tax.
- The company can claim indexation relief if it makes a subsequent profit on the sale of a buy-to-let property. This relief is no longer available to individuals.

Disadvantages:

- There will be additional personal tax to pay if you withdraw funds, over the amount you personally invested in the company.
- Increased costs you will be required to pay to cover statutory formatting and filing of accounts and tax returns.
- If you already own buy-to-let property in your own name you run the risk of paying significant stamp duty, and perhaps capital gains tax on the transfer. See below.

Incorporating an existing buy-to-let business owned by an individual is not a route we would recommend without a thorough examination of the downside tax risks and the strategies that would need to be employed to reduce or eliminate these charges.

We recommend that existing and new landlords take advice before proceeding with this option for their buy-to-let business.

Q15. Is tax relief being cancelled for buy-to-let mortgage interest?

The tax relief for finance charges is not being cancelled, it is being reduced.

The restriction of income tax relief will apply to individuals who:

- let residential property in the UK or elsewhere, and
- are claiming a deduction for financing costs (see below for list of costs included) from April 2017, and
- from April 2017, pay income tax on their property income at the higher (40%) or additional (45%) rate.

It will not apply to:

- Financing costs for purchase of furnished holiday let or commercial property,
- Property businesses subject to corporation tax - owned by companies, or
- Individuals who pay tax on their property income at basic rate only.

The new measure will gradually restrict landlords' tax relief for the finance costs of purchasing residential properties, to the basic rate of income tax.

From 6 April 2020 landlords affected will no longer be able to deduct their finance costs from their property income. Instead they will receive a basic rate deduction from their income tax liability.

Continued Over...

Q15. Is tax relief being cancelled for buy-to-let mortgage interest? (continued)

Between now and 6th April 2020 relief will be tapered as follows:

2017-18	The deduction of allowable finance costs will be restricted to 75%, with 25% being available as a basic rate income tax deduction.
2018-19	The deduction of allowable finance costs will be restricted to 50%, with 50% being available as a basic rate income tax deduction.
2019-20	The deduction of allowable finance costs will be restricted to 25%, with 75% being available as a basic rate income tax deduction.

Finance costs include: mortgage interest, interest on loans to buy furnishings, and fees incurred when taking out or repaying mortgages or loans.

A further consequence of this change is that the rental income for tax purposes increases with no increase in rents: the finance costs are added back. In some circumstances this may mean that basic rate taxpayers become higher rate tax payers.

What does this mean? Example Case.

Let's say that Bob's only income for 2015-16 is £120,000 from rents received before deductions for mortgage interest of £80,000. After a deduction for the basic personal allowance of £10,600 his income tax liability would be £5,880 (£40,000-£10,600) x 20%).

If we recalculate Bob's income tax for 2015-16, disallowing the deduction for mortgage interest and applying the basic rate tax credit, his income tax liability would increase dramatically:

Net rents received *No deduction for mortgage interest is allowed*	£120,000
Less personal allowance *Restricted as income exceeds £100,000*	£600
Taxable income	**£119,400**
Income tax due at basic rate 20% (£31,785 x 20%)	£6,357
Income tax due at higher rate 40% (£87,615 x 40%)	£35,046
Less basic rate tax credit for mortgage interest (£80,000 x 20%)	-£16,000
Net income tax due	**£25,403**

With no change in his property business cash flow, same rents same costs, Bob's tax bill under the new rules would increase by £19,523.

This would reduce Bob's after tax income from £34,120 to just £14,597, possibly affecting Bob's ability to make mortgage payments.

Depending on Bob's savings, he may feel obliged to pay off part of his loan so that rents received and costs, including tax, return to equilibrium – alternatively he may have to sell if he has no spare cash available.

Landlords affected by these changes should consider their options now. There is still time to consider an appropriate response before the gradual loss of higher rate tax relief starts to impact from April 2017.

Q16. Why do I need to keep a mileage log?

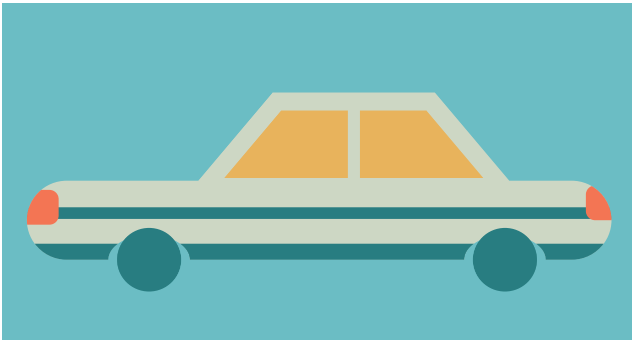
If you are self-employed, as a sole trader or in partnership, and you use a business vehicle for private purposes, HMRC will seek to disallow any motoring costs, petrol etc., and capital allowances based on the purchase cost of the vehicle, to cover the private use proportion.

The only practical way that you can do this is to record your car mileage at the beginning and end of your trading year, to ascertain the total miles for the period, and a log of your business miles.

At a minimum, you should be able to provide evidence of total annual mileage and a detailed record of business mileage for the same period.
The log should include the following information:

- Date of the business use
- The address you were attending and the round trip mileage
- The reason for the trip

This could be recorded in a diary kept in your car or by using the Davis Grant App on your iPhone.



Armed with this information, any disallowance of running costs and capital allowances will be fairly based and not some arbitrary figure dictated by HMRC. Estimates will not pass muster with the tax office, you will need to back up numbers with evidence.

If you are employed, have the use of a company car, and your employer pays all of your petrol, including that used privately, then you will be subject to the car fuel benefit charge. The only way to avoid this tax charge is to repay your employer for petrol used privately. To do this you will need to keep a log of all private journeys. At the end of each tax year, or periodically during the tax year, you should multiply the private use miles by the approved car fuel rate - this can be accessed from the HMRC website. Just multiply the private use miles by the appropriate rate per mile and pay this amount to your employer.

If you want your motoring costs fairly apportioned for private use, you should keep a mileage log.

If you have difficulty tracking down fuel mileage rates or settling on a convenient way to record your mileage, please call.

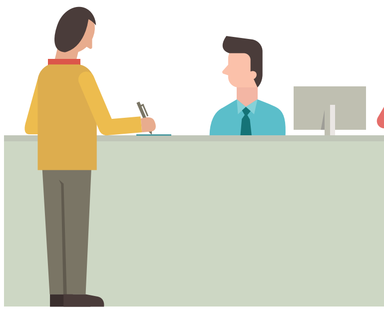
Q17. When can I claim back overpaid tax?

To claim back tax that you have overpaid, all of your income, and details of reliefs to which you may be entitled, will need to be lodged with HMRC for the appropriate tax year.

If you are registered for self-assessment this will not be until your tax return is submitted. If you are not registered for self-assessment you will have to wait for HMRC to collect information from your employers, pension sources etc. and send you a statement together with any agreed refund.

Certain self-employed, building subcontractors, who will be registered for self-assessment, have income tax deducted from their earnings at the basic rate, 20%. As a consequence, they are usually keen to submit their return quickly in order to recover tax overpaid.

If you submit a tax return, and you are convinced that you have overpaid tax, you should **aim to complete and submit your tax return as soon as you can after the end of the relevant tax year**. As a general rule of thumb, you should receive your rebate within 3 to 4 weeks of submitting your return. Make sure your bank details are included so your funds can be deposited direct to your bank account – saves time.



If you don't submit a return, you will have to wait for HMRC to gather the relevant information from employers, pension providers and other sources. Realistically, it is unlikely this will be completed before the end of May, or early June, following the end of the tax year.

We can help you prepare and submit your tax return, the sooner the better, we can also pester HMRC on your behalf!

Q18. Are there any tax-free perks?

Yes, indeed there are!

Here's a list of some, but not all, of the tax-free perks you may be able to access.

1. Meals in a staff canteen.
2. Hot drinks and water at work.
3. A mobile phone provided by your employer.
4. Workplace parking.
5. Annual parties organised by your employer as long as the cost per head is £150 or less.

6. In certain circumstances, tax-free childcare support.
7. Pensions contributions.
8. Encouragement awards from an employer. Exempt up to £25 per award.
9. In-house sports facilities.
10. Counselling for redundant staff.
11. Use of works buses.
12. Equipment and facilities to help you with your job, if you are disabled.
13. Financial benefit awards from an employer – ideas that can make your employer money.
14. A long service award – available if you have worked with employer for at least 20 years.
15. A trivial benefits exemption of up to £50 per benefit.

We would be happy to review all of your benefits provided to directors or staff to see if more tax efficient options are available.

Q19. Why am I paying tax in advance?

Many of our self-assessment (SA) clients are confused by the way in which they pay their self-assessment tax.

We have summarized below three scenarios: paying SA tax for the first time, ongoing SA tax payments, and what to do if profits are increasing or decreasing.

1. If your self-employment, or liability for SA tax commenced say 6 April 2015, your first year of SA would be 2015-16. Any balance of tax outstanding for this year would not fall due for payment until 31 January 2017. For this year, you would be paying tax in arrears.

2. In the second year, 2016-17, HMRC would estimate your liability for SA based on the liability for the previous tax year, 2015-16. They would then collect 50% of tax due 31 January 2016, before the end of the tax year, and 50% 31 July 2016, 4 months after the end of the tax year. When your actual SA return is filed for 2016-17, and the actual liabilities are known, any short payment of tax will be collected 31 January 2018, and any over-payment of tax should be sent to you shortly after your 2016-17 return is filed.

Accordingly, most if not all your tax payments up to this point are payments in arrears. The only exception is if your income or profits for the later year are lower than the previous year. In that case, payments on account may be excessive. However, there is a remedy. If you have solid grounds for believing that your income is dropping, and you have an idea by how much it is dropping, then you can apply to have the payments on account reduced.

Care should be taken to avoid over-cooking any reductions in these payments on account. HMRC will not look kindly on excessive adjustments that result in tax being under, rather than over paid. You will have to pay interest on reduction in tax that subsequently becomes payable.

Although paying tax is not a pleasant act, in most cases you will be paying tax in arrears not in advance.

Managing self-assessment is part of the service we provide for clients, and includes the filing of applications for a reduction in tax payments where appropriate.

Q20. What happens if I can't afford to pay my tax?

If at all possible, you should seek help to plan your tax payments for at least the year ahead and aim to save funds that will meet the liabilities as they fall due (see Q8).

If times are hard, and you have to dip into your tax savings to keep your business afloat, the key step to *contact HMRC before the due date for payment* and explain why it is you will not be able to make you next tax payment in good time.

HMRC will want to know why you cannot pay so be prepared. They will accept a reasonable excuse, and be prepared to discuss an affordable staged payment plan. Saying that you spent your tax money on a long planned world cruise will likely be met with blank astonishment and a vigorous request for immediate payment.

HMRC will charge interest and penalties if you are a late payer. Current penalties for late payment are:

- 30 days late, 5% of tax due
- 6 months late, 5% of tax due at that date
- 12 months late, 5% of tax due at that date

In addition, interest will be charged on tax outstanding including unpaid penalties.

If you find that HMRC are uncooperative in agreeing a reasonable repayment plan, we can negotiate on your behalf.

Important Information

We have used reasonable care and skill in assembling the information in this document. Information or advice implied cannot be tailored to all personal circumstances or particular situations. There may also be factors relevant to your particular circumstances which fall outside the scope of some or all of the information disclosed. Accordingly, this material does not constitute personal advice. You should not rely solely on this material to make (or refrain from making) any decision or to take (or refrain from taking) any action. Legislation changes frequently and any material in this fact sheet covers all known changes to 10 June 2016.

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