Ellacotts Business Newsletter – January 2019

Welcome to the January edition of our Business Newsletter, featuring news on Making Tax Digital, how to protect your identity online, self-employed pensions and new fuel rates for company cars.

If you have any questions or would like to discuss any article in more detail, please contact us.

Is your business Making Tax Digital compliant?

Who needs to be compliant?

A common misconception of Making Tax Digital (MTD) is that all UK VAT registered business needed to be compliant from 1 April 2019.

This is not the case however, and only UK VAT registered businesses with a turnover above £85,000 will need to keep digital records and submit VAT returns to HMRC using MTD compatible software.

For a very small minority of businesses with more complex requirements, HMRC are deferring the deadline to 1 October 2019.

If after being required to comply, VAT taxable turnover falls below the VAT registration threshold, MTD still applies, unless the business deregisters from VAT or meets one of the other exception criteria, such as insolvency.

The deadlines for sending VAT returns and making payments are not changing.

What is classed as 'turnover' for VAT purposes?

Turnover for VAT purposes often does not include rental income from residential lettings which may be classed as exempt for VAT purposes. If your annual turnover for VAT purposes is below the threshold then you are NOT required to be MTD compliant from 1 April 2019. However, you may need to be compliant in the future.

If your annual turnover is near the threshold you should monitor this in line with HMRC guidelines.

What classifies as 'digital'?

Digital means that records need to be maintained in a format that can be directly or indirectly linked to HMRC when submitting VAT returns.

Handwritten records are NOT classified as digital, and spreadsheets can only be used if also using a "bridging" software. If you are bookkeeping on these methods alone, then you will either need to transfer to one of the software platforms recommended by HMRC or use bridging software which enables data to be sent from spreadsheets to HMRC.

Cloud accounting software is a good solution and there are other significant benefits to your business:

- It's in the cloud so you can get a clear view of your finances any time any place
- You can run your business from anywhere in the world, including at home or on your mobile device
- It automatically grabs bank receipts and payments in real time

- You can use your mobile device to photograph or scan purchase invoices and expenses and upload these to the software.

"If it's not broke why fix it?"

Although this change may be daunting, keeping digital records will also bring along with it many benefits.

You will be able to see which parts of the business are most profitable, where costs need to be cut and how much money is owed to and from the business, which greatly helps cash flow.

Many business owners who have taken the leap to convert to a digital system have said they would never go back due to the ease of use, time saved and the greater control they have over business finances.

Will 'splitting' the business mean we avoid having to become MTD compliant?

Some businesses have considered 'splitting up' certain parts of their business to reduce the turnover so it falls below the £85,000 threshold in the hope that they will no longer need to be MTD compliant. This is unlikely to work - the enterprises will still have financial, economic and organisational links and therefore HMRC may identify this as one business.

Can I still keep different sets of records for each enterprise?

You can still maintain separate records for each enterprise in order to track income and expenses accurately and to monitor profitability.

What can I do now to ensure my business is compliant?

When choosing an MTD compliant software, it is vital to consider which will one is most suited to the individual needs of your business. At Ellacotts we have a dedicated team of cloud accounting experts who can help you find the right solution and ensure you are MTD ready.

We have teamed up with bridging software companies to enable our clients to be MTD compliant whilst still using spreadsheets. We are also certified in the installation and operation of cloud accounting software which is HMRC approved and specifically designed for small and medium sized businesses.

If you would like to find out more about MTD and cloud accounting solutions, please contact Charlotte Toemaes on ctoemaes@ellacotts.co.uk or call 01295 250401.

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New advisory fuel rates for company cars

Company car advisory fuel rates have been updated from 1 December 2018. The rates only apply to employees using a company car.

The new advisory fuel rates for journeys undertaken on or after 1 December 2018 are:

Engine size	**Petrol**
1400cc or less	12p
1401cc - 2000cc	15p
Over 2000cc	22p
Engine size	**LPG**
1400cc or less	8p
1401cc - 2000cc	10p
Over 2000cc	15p
Engine size	**Diesel**
1600cc or less	10p
1601cc - 2000cc	12p
Over 2000cc	14p

HMRC state that the new fuel should not be used in any other circumstances:

- reimburse employees for business travel in their company cars
- require employees to repay the cost of fuel used for private travel

To find out more about company car policies, please contact Derek Boughton.

Government review of Inheritance Tax

A review of Inheritance Tax (IHT) has taken place by The Office of Tax Simplification (OTS), who has published the first of two reports.

The first report sets out an explanation of the issues and complexities of IHT, gives an overview of concerns raised by the public and professional advisors during the review and then makes recommendations. This first report examines the administrative issues that people complain about and which were raised in the responses. The second report covering other wider areas of concern to people will follow in Spring 2019.

More than 3,500 people shared their views about IHT, far more than in previous reviews. Many commented that, at what is such a difficult time, they had to fill in complicated forms even where the relative who had died had only left a small amount.

Around 570,000 people die in the UK each year and half of these families have to fill in the forms, yet IHT is payable on less than 5% of those estates. Many told the OTS that their relative had worried about IHT during their lifetime, even though it was not going to affect them.

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The first report highlights the benefits of:

- reducing or removing the requirement to submit forms for smaller or simpler estates, especially where there is no tax to pay
- simplifying the administration and guidance
- the advantages of banks and other financial institutions having standardised requirements
- automating the whole system by bringing it online

Angela Knight CBE, OTS Chairman, said:

> *"Inheritance Tax is both unpopular and complicated. The basic design of the tax itself is for government, but at the OTS we can address that most frequent of all comments "at least make it easier for the families to fill in the forms". The OTS has worked on ways to address these practical complexities, which have come through loud and clear."*
>
> *"The recommendations in this report will make it easier for the majority, and would mean that in future, many may not have to do the forms at all. Improving the administration of this tax in these ways is important as having to deal with the current process can seem overwhelming to people at a time when they are both preoccupied and distressed."*

It is understood that in the last tax year 2017/18, IHT receipts hit a record high of £5.2bn. Statistics issued by HMRC in 2018 showed a steady increase in IHT over the last 8 years despite the introduction of the new allowance that allows couples to pass on the family home. With careful tax planning it may be possible to mitigate your exposure to IHT.

If you would like to discuss IHT planning, please contact Ann Bibby on 01295 250401 or abibby@ellacotts.co.uk.

How to protect your identity

As individuals, throughout our lifetime we exchange personal information with a vast number of institutions including banks, credit card suppliers, utility companies, supermarkets, government organisations and retailers.

There are a number of basic things we can all do as individuals to protect ourselves against identity crime and reduce the risk of our personal information falling into the wrong hands.

How to minimise the chances of identity fraud:

1. **Check your credit reports** - At a small cost, you can check your credit file with a credit reference agency such as Call Credit, Equifax or Experian to help identify any activity that you are not aware of.
2. **Monitor your mail** - Make sure you receive all post that you are expecting. If you think post is missing, contact the Royal Mail. Also, arrange for the Royal Mail to re-direct post to your new address if you have moved house, and inform companies that you deal with regularly that you have moved.
3. **Review bills and bank statements** - Check bank, credit card and other financial statements frequently, and look out for transactions that you do not recognise. Check for fraudulent charges or suspicious activity. Report issues immediately. Consider receiving statements and bills electronically, setting up direct deposits, and using online bill pay.

4. **Identity theft protection** - Identity theft protection providers monitor your credit reports, as well as online debit and credit card number(s). If suspicious activity is detected, you will be notified and will receive identity recovery assistance.
5. **Shred documents** - Carefully dispose of documentation that contains personal details rather than just throwing them away. Use a cross-cut shredder to destroy envelopes and documents.
6. **Secure your computer(s) and mobile devices** - Whether a desktop, laptop, netbook, tablet or smartphone, your computer contains critical personal information.

To help protect your electronic devices, you should also:

- Password-protect your device
- Install and update the operating system, antivirus and anti-spyware software. For smartphones, also install a 'wiping' program to erase all data remotely if it is lost or stolen
- Use a personal firewall
- When using a wireless network, activate WPA encryption and any other security features available. Change your router's default password and SSID
- Beware of 'smishing' – text messages containing links capable of downloading malware to your smartphone
- Do not leave your device unattended or your screen visible to others
- Close your browser when you're finished with a secure session
- Log off when you leave or step away

Use caution online:

- Only access personal and financial information from a computer you 'trust'
- Only do business with financial institutions and online merchants you know and trust. Watch out for copycat sites, and confirm the email address is correct
- When accessing financial information or ordering online, be sure the site is secure. Look for a URL that begins with 'https://' and the 'closed padlock' symbol
- Never reply to an email or pop-up message that requests you provide or update your personal information

On social media sites, it's always a good idea to:

- Review the privacy policy
- Choose a challenging password
- Don't reveal your physical address, date of birth, school names or phone numbers
- Use privacy settings

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Avoid the March rush by starting your tax planning now

Although the current tax year does not end until 5 April 2019, tax planning shouldn't be a mad March rush. Now is a perfect time get a head start on your tax planning resolutions to enhance your own, your family's or your company's tax-efficient plans for the future.

We have set out some tax tips and actions that may be appropriate to certain taxpayers. Reviewing your tax affairs now will ensure that available reliefs and exemptions have been fully utilised, together with future planning which could help to reduce your tax bill:

Pension contributions for spouse or children

Consider contributing up to £2,880 towards a pension for your non-earning spouse or children. The Government will add £720 on top – for free.

Individual Savings Accounts (ISAs)

Fully utilise your tax-efficient ISA allowance. The allowance for 2018/19 is £20,000 per person, whilst the Junior ISA allowance is now £4,260 for children under 18.

Capital Gains Annual Exemption

Use the capital gains annual exemption of £11,700 (2018/19) to realise gains taxfree. The allowance cannot be transferred between spouses or carried forward.

Pension contributions for yourself

Maximise contributions amount and tax relief. Take full advantage of increasing pension contributions by utilising the annual allowance, which is £40,000 (tapered if you earn over £150,000) or the value of your whole earnings – whichever is lower. Unused annual allowances may also be carried forward from the previous three tax years.

Remuneration strategy

If you run your own company, it's a good idea to determine your pay and benefits strategy sooner rather than later. For 2018/19, the dividend nil-rate band is reduced from £5,000 to only £2,000 – it's really important to consider the tax implications of your chosen approach to salary, benefits, pensions and dividends.

Gifting

You can act at any time to help reduce a potential Inheritance Tax bill when you're no longer around. Make use of the Inheritance Tax annual exemption that allows you to give away £3,000 worth of gifts outside of your estate. If unused, the exemption can be carried forward one year.

Transfer income-producing assets

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Consider transferring income-producing assets between your spouse or registered civil partner in order to use the Income Tax personal allowance and lower Income Tax bands of the transferee.

Overpayment and capital loss claims

Submit claims for overpaid tax and capital loss claims for the 2014/15 year before 5 April 2019, after which such claims will be time-barred.

Landlords

For 2018/19, the restriction on the deductibility of mortgage interest and other finance costs doubles from 25% to 50%. If you plan to take steps to mitigate the impact (such as incorporation, for example), you may save more tax by taking those steps earlier on in the year. In future years, the restriction will apply to 75%, and then from April 2020, 100% of finance costs incurred by individual landlords.

Need help with your tax planning?

It is important to ensure that, if you have not done so already, you take the time to carry out a review of your tax and financial affairs to identify any tax planning opportunities and take action before it's too late.

Personal circumstances differ, so if you have any questions or if there is a particular area you are interested in, please contact Chris Slatter on cslatter@ellacottswealth.co.uk or 01295 250401.

Self-employed finances and pensions

The number of people running their own businesses has soared since the financial crisis, with a significant number being set up by someone aged over 50. But an unhealthy number of self-employed workers in the UK do not currently save into a pension.

New research [1] has highlighted that self-employed workers are heading towards a pension saving crisis as they cannot afford to save for their retirement. Starting your own business and becoming self-employed is exciting. But being your own boss can have some challenges – saving for retirement is certainly one of them. The nationwide study found that more than two fifths (43%) of those working for themselves admit they do not have a pension, compared to just 4% of those in employment. A key reason is that 36% of the self-employed say they cannot afford to save for retirement.

Will you have a less comfortable retirement?

Self-employed workers now make up 15.1% of the UK workforce, with more than 4.8 million people working for themselves [2], but the research found they are heading for a less comfortable retirement, with many not planning

to stop work. Around one in three (31%) say they will be relying entirely on the State Pension worth around £8,545 a year to fund their retirement, while 28% will be reliant on their business to provide the income they need.

More focused on day-to-day emergencies

Self-employed workers are savers, but the research found they are more focused on day-to-day emergencies than the long-term of retirement. Two thirds (64%) of the self-employed save to build up a safety net in case of an emergency, in comparison with 57% of those in employment. Just one in ten self-employed people see a financial adviser regularly, despite having potentially more complex requirements than someone in employment. One in five (19%) are not confident with money and financial matters, while a quarter (24%) worry that they do not know enough about money.

Pensions for the self-employed

All this adds up to an education gap when it comes to the importance of pensions for the self-employed, as 20% admit they do not take pension saving seriously as they do not think it applies to them. Saving for retirement is tougher when you are self-employed, as there is no one to organise a pension for you and no employer making contributions on your behalf. On top of that, self-employed workers often don't have a regular income, so many will focus on setting aside money as a safety net if they cannot work.

Funding a comfortable retirement

Saving for a pension is still important, as no one wants to work forever. And no matter what your employment status, having money to fund your retirement is essential, as the State Pension is unlikely to be enough to fund a comfortable retirement. If you leave an employer and become self-employed, you should continue to pay into your workplace pension if possible. Some workplace pension schemes allow you to carry on saving once you have left your employer and become self-employed.

Would you like help with your finances?

Starting your own business will be a busy time, and you will be feeling the financial pressures from all directions, so it's understandable that a pension might not be on your immediate radar. Wherever you sit in your retirement journey, we're here to support you. Whether it's starting a pension, saving more into your plan or to help with your options for retirement, please contact Chris Slatter on cslatter@ellacottswealth.co.uk or 01295 250401.

Source data: [1] Consumer Intelligence conducted an independent online survey for Prudential between 20–21 June 2018 among 1,178 UK adults [2]

University students targeted by phishing tax refund email

University students are being bombarded with fake tax refund emails, HMRC has warned. The scammers have targeted university students in an attempt to steal their banking and personal details using university .ac.uk email addresses that look genuine.

Mel Stride, Financial Secretary to the Treasury said:

> *"Although HMRC is cracking down hard on internet scams, criminals will stop at nothing to steal personal information. I'd*

encourage all students to become phishing-aware - it could save you a lot of money."

In common with other tax scams, fraudsters send a message, including HMRC, GOV.UK or credit card branding, supposedly advising the recipient about a tax refund. Recipients are asked to click on a link and enter their banking and personal details. Fraudsters can use this information to steal money from bank accounts or to sell on to other criminals.

Between April and September 2018, HMRC requested that 7,500 of these phishing sites be deactivated, compared to 5,200 in the previous year.