Personal tax

Concise information on a variety of topics relevant to an individual. Click on the links below to access the relevant factsheet.

1. Charitable giving

You can get tax relief on gifts to UK charities if you give under Gift Aid or through a Payroll Giving scheme or by making a gift of shares or land. We outline the reliefs available.

2. Child Benefit charge

Information regarding the High Income Child Benefit charge which applies to taxpayers who have income over £50,000 in a tax year where either they or their partner receive Child Benefit.

3. Dividends and interest

This factsheet considers the Savings and Dividends Allowances.

4. Individual Savings Accounts

ISAs are tax-exempt savings accounts available to individuals.

5. Making Tax Digital for Individuals

Outlining the Making Tax Digital regulations for individuals.

6. Personal tax - self assessment

Under self-assessment an individual is responsible for ensuring that their tax liability is calculated and any tax owing is paid on time. We summarise the rules and penalties for failing to comply with your obligations.

7. Personal tax - when is income tax and capital gains tax payable?

Advice on when key tax payments under Self Assessment are payable.

8. Property investment - buy to let

We consider what the key areas are for investing in property, looking at rental income, along with all the other costs and outgoings.

9. Property investment - tax aspects

Investment in property continues to be a popular form of investment. On the basis that the investment appears to make commercial sense what tax factors should you take into account?

10. Taxation of the family

We highlight the main areas to consider in regard to tax planning for family members and the minimisation of tax liabilities.

11. Tax-Free Childcare

Tax-Free Childcare provides tax relief for individuals on their qualifying childcare costs. This factsheet considers the key principles and requirements.

1. Charitable giving

Tax relief on gifts to UK charities is available if you give under Gift Aid or through a Payroll Giving scheme or by making a gift of shares or land. We outline the reliefs available here. At Franklyn & Co, we can provide more detailed advice if you live in the Nottinghamshire area.

If you are thinking of making a gift to charity, this factsheet summarises how to make tax-effective gifts. You can get tax relief on gifts to UK charities if you give:

- under Gift Aid
- through a Payroll Giving scheme, run by your employer, or
- by making a gift of certain shares or land.

Location of the charity

Charitable tax reliefs are available on gifts to UK charities and Community Amateur Sports Clubs (CASCs).

Gift Aid

If you pay tax, Gift Aid is a scheme by which you can give a sum of money to charity and the charity can normally reclaim basic rate tax on your gift from HMRC. That increases the value of the gift you make to the charity. So for example, if you give £10 using Gift Aid that gift is worth £12.50 to the charity.

You can give any amount, large or small, regular or one-off.

If you do not pay tax, you should **not** use Gift Aid.

How does a gift qualify for Gift Aid?

There are three main conditions. You must:

- make a declaration to the charity that you want your gift to be treated as a Gift Aid donation
- pay at least as much tax as the charities will reclaim on your gifts in the tax year in which you make them
- not receive excessive benefits in return for your gift.

Making a declaration

The declaration is the charity's authority to reclaim tax from HMRC on your gift.

The declaration can be in writing or orally but, usually, the charity will provide a written declaration form.

You do not have to make a declaration with every gift. In order to make a Gift Aid donation you'll need to make a Gift Aid declaration. The charity will normally ask you to complete a simple form - one form can cover every gift made to the same charity or CASC for whatever period you choose, and can cover gifts you have already made (backdating your claim for up to four years) and/or gifts you may make in the future.

Gift Aid donor benefit rules

The donor benefit rules that apply to charities that claim Gift aid are determined by two percentage thresholds:

- the benefit threshold for the first £100 of the donation is 25% of the amount of the donation, and
- for larger donations, charities can offer an additional benefit to donors up to 5% of the amount of the donation that exceeds £100.

There is an overriding limit on the value of benefits received by a donor in a tax year as a consequence of donations to a charity, which is £2,500.

You can pay membership subscriptions to a charity through Gift Aid, provided any membership benefits you receive do not exceed certain limits. However, you can disregard free or reduced entry to view any property preserved, maintained, kept or created by a charity in relation to their charitable work.

Fund-raising events

Where you have raised money which has simply been collected from other people and the other people have not made a declaration to the charity that they are taxpayers, the payment is not made under Gift Aid and generally no tax relief is due but see below regarding the Gift Aid Small Donations Scheme.

However, if you have been sponsored for an event, and each sponsor has signed a Gift Aid declaration, then the charity can recover the tax on the amounts covered by declarations. Charities may produce sponsorship forms for this.

Higher rate and additional rate taxpayers

If you are a higher/additional rate taxpayer, you can claim tax relief on the difference between the basic rate and higher/additional rate of tax (through your tax return). Relief is given either for the tax year of payment or in some cases it is possible to elect to receive the benefit of the higher/additional rate tax relief in the tax year prior to the year of the donation.

You should therefore keep a record of payments made under Gift Aid for each tax year.

The time limit for claiming tax relief on Gift Aid donations is four years. This time limit applies to the charity and the individual making the gift.

Tainted donations to charity

Tax relief is denied on donations where one of the main purposes of the donation is to receive a tax advantage for the donor or connected person directly or indirectly from the charity. There is no monetary limit on the amount of the donation which may be caught by these rules.

Gift Aid Small Donations Scheme (GASDS)

Charities can use Charities Online for repayment of tax on other income and claims for top-up payments under the Gift Aid Small Donations Scheme (GASDS).

Charities and CASCs can claim a top-up payment on small donations without the need to collect Gift Aid declarations. The Gift Aid Small Donations Scheme (GASDS) applies where it is impractical to obtain a Gift Aid declaration. GASDS applies to donations of £30 or less made by individuals in cash or contactless payment. Charities are generally able to claim on small donations of up to £8,000 per annum which will result in a repayment of £2,000 for the charity or CASC. The GASDS claim must not be more than ten times the Gift Aid claim.

The GASDS is ideal for small cash donations or contactless payments received in collection boxes, bucket collections and during religious services.

Payroll Giving

A Payroll Giving scheme allows you to give regularly to charity from your pay and get tax relief on your gifts. The scheme requires your employer to set up and run a scheme. You authorise your employer to deduct your gift from your pay. Every month your employer pays it over to a Payroll Giving agency approved by HMRC. The agency then distributes the money to the charity or charities of your choice.

Because your employer deducts your gift from your pay or pension before PAYE is worked out, you pay tax only on the balance. This means that you get your tax relief immediately at your highest rate of tax. (The amount you pay in national insurance contributions is not affected.)

Gifts of shares or land

Capital gains tax (CGT)

You are not liable to CGT when you make a gift of assets, such as land or shares, to charity, even if the asset is worth more when you donate it than when you acquired it.

Income tax

You may also get income tax relief for these gifts to charity if they are ‘qualifying investments’ (see below).

The relief you can claim will usually be the market value of the shares, securities or land plus any incidental costs of disposal less the value of any consideration or benefits you receive.

2. Child Benefit charge

The receipt of Child Benefit can result in a tax bill. This potential bill brings the Child Benefit into the scope of self assessment and, if you live in the Nottinghamshire area we, at Franklyn & Co, can advise you on the potential application of the Child Benefit Charge and possible tax planning that may be appropriate to remove the Child Benefit Charge.

The High Income Child Benefit charge applies to a taxpayer who has income over £60,000 (for 2024/25, £50,000 for 2023/24) in a tax year where either they or their partner, if they have one, are in receipt of Child Benefit for the year.

We set out below the main points of the charge and illustrate some of the practical issues.

Does this affect my family?

The High Income Child Benefit charge is payable by a taxpayer who has 'adjusted net income' (explained later) in excess of £60,000 where either they or their partner, if they have one, are in receipt of Child Benefit. Where there is a partner and both partners have adjusted net income in excess of £60,000 the charge only applies to the partner with the higher income.

Note that partner does not just include spouses or civil partners but also anyone you live with as if you were spouses/civil partners.

Changes in circumstances

As the charge is by reference to weeks, the charge will only apply to those weeks of the tax year for which the partnership exists. If a couple breaks up, the partner with the highest income will only be liable for the period from 6 April to the week in which the break up occurs.

Conversely, if a couple comes together and Child Benefit is already being paid, the partner with the highest income will only be liable to the charge for those weeks from the date the couple start living together until the end of the tax year.

So what is the adjusted net income of £60,000 made up of?

It can be seen that the rules revolve around 'adjusted net income', which is broadly:

- income (total income subject to income tax less specified deductions e.g. trading losses and payments made gross to pension schemes)
- reduced by grossed up Gift Aid donations to charity and personal pension contributions which have received tax relief at source.

In some cases it may be that an individual may want to donate more to charity or make additional pension contributions: for example, to reduce or avoid the charge.

Inequity applies as household income is not taken into account although the government has announced that it intends to move to a household basis by April 2026.

Therefore, equalising income for those who have the flexibility to do so such as in family partnerships or family owner managed businesses may be important.

The charge

An income tax charge will apply at a rate of 1% of the full Child Benefit award for each £200 of income between £60,000 and £80,000. The charge on taxpayers with income above £80,000 will be equal to the amount of Child Benefit paid.

Example for 2024/25

The Child Benefit for two children amounts to £2,213 per annum. The taxpayer's adjusted net income is £70,000. The income tax charge will be £1,107. This is calculated as £2,213 x 50% (£70,000 - £60,000 = £10,000/£200 x 1%).

How does the administration operate?

In the self assessment system individuals are required to notify HMRC if they have a liability to income tax, capital gains tax (CGT) and the High Income Child Benefit Charge by 6 October following the tax year.

In addition, the charge is included in Pay as You Earn (PAYE) regulations so that it can be collected through PAYE, using a reduced tax code. It is also included in the definition of tax liability, so that it could potentially affect payments on account and balancing payments.

So should you continue to claim Child Benefit?

It is important to appreciate that Child Benefit itself is not liable to tax and the amount that can be claimed is therefore unaffected by the charge. It can therefore continue to be paid in full to the claimant even if they or their partner have a liability to the charge.

On the other hand Child Benefit claimants are able to elect not to receive the Child Benefit to which they are entitled if they or their partner do not wish to pay the charge. This will not affect the credit available (for state pension purposes) to certain people who stay at home to look after children (provided that an initial claim for child benefit was made when the child was born).

An election can be revoked if a person's circumstances change.

But I don’t file a tax return?

It may well be that you and/or your partner have not filed a tax return before but this may need to change. You need to tell HMRC by 6 October following the end of the tax year if you think a charge may be due.

Guidance

HMRC have issued some guidance on the charge and the options available which can be found here. This should be essential reading for many families.

3. Dividend income

The availability of the Dividend Allowance (DA), means that the first £500 for 2024/25 of dividends are charged to tax at 0%. This allowance has decreased from £1,000 in 2023/24 and previous years.

Dividends received above this allowance are taxed at the following rates:

8.75% for basic rate taxpayers

33.75% for higher rate taxpayers

39.35% for additional rate taxpayers.

Dividends within the allowance still count towards an individual's basic or higher rate band and so may affect the rate of tax paid on dividends above the £500 allowance.

Dividends are treated as the top slice of income and the basic rate tax band is first allocated against other income.

Example

Mr A has non-dividend income of £46,700 and receives dividends of £12,000. The non-dividend income is taxed first. Of the £46,700 non-dividend income, it would be advantageous to utilise £9,000 of the £12,570 available Personal Allowance, leaving £37,700 to be taxed at the basic rate.

The basic rate band for 2024/25 is fully utilised against the taxable non-dividend income. The remaining £3,570 of Personal Allowance is used against the dividends and £500 of dividends are covered by the Dividend Allowance. The remaining dividends (£12,000 less £3,570 Personal Allowance and £500 of DA) fall in the higher rate tax band and are therefore taxed at 33.75%.

Savings income

Some individuals qualify for a 0% starting rate of tax on savings income up to £5,000. However this rate is not available if non-savings income (broadly earnings, pensions, trading profits and property income) exceeds the starting rate limit.

The Savings Allowance (SA) taxes savings income within the SA at 0%. The amount of SA depends on the individual’s marginal rate of tax. An individual taxed at the basic rate of tax has a SA of £1,000 whereas a higher rate taxpayer is entitled to a SA of £500. Additional rate taxpayers receive no SA.

Savings income in excess of the SA are taxed at the same rates as non-savings income being:

20% for basic rate taxpayers

40% for higher rate taxpayers

45% for additional rate taxpayers

Savings within the SA still count towards an individual's basic or higher rate band and so may affect the rate of tax paid on savings above the SA.

Savings income includes:

interest on bank and building society accounts

interest on accounts with credit unions or National Savings and Investments

interest distributions from authorised unit trusts, open-ended investment companies (OEICs) and investment trusts

income from government or corporate bonds

most types of purchased life annuity payments.

Switching investments

Given the lower amount of SA, higher and additional rate taxpayers could seek to maximise their use of the DA by moving investments out of interest bearing investments to ones which pay out dividends. This could be through direct shareholdings or through dividend distributing equity funds in unit trusts or OEICs. Although this will become less beneficial as the dividend allowance reduces, the income tax rate payable on dividends is lower than that on savings income.

Interaction between DA and SA

If the amount of dividends an individual receives is covered by the DA but those dividends would have meant that they were higher rate taxpayers without the DA, then this would affect the amount of SA they would receive.

Example

Mrs B has a salary of £49,000, interest income of £1,000 and dividends of £1,000. Although the dividends are covered by the DA, Mrs B's total income is £51,000 so she is a higher rate taxpayer. She would therefore only receive £500 of SA against the £1,000 of interest income.

Check your coding

Where savings income exceeds the SA, there will be tax to pay on the excess. HMRC try to collect this tax by adjusting an individual's tax code. To allow them to do this they will use information from banks and building societies. However in some cases, HMRC may overestimate the amount of interest people are likely to earn and adjust their coding accordingly. So it is always worth checking coding notices when they come through.

Gift Aid donations

Take care if you make Gift Aid donations. A charity can reclaim the tax on a Gift Aid donation only if the individual has paid the amount of tax being reclaimed.

Savings and dividend income covered by the SA and DA is not taxed. Where this happens the individual is responsible for ensuring that the donation is covered and HMRC has powers to recover any shortfall from the taxpayer.

Planning for spouses/civil partners

The Dividend and Savings Allowances may also mean it is important to consider the allocation of investments between husband and wives or civil partners. If just one partner has investments generating dividends or savings it could be beneficial to transfer part of the investments to the other partner to ensure they receive income which utilises their DA or SA. Any transfer of assets between spouses or civil partners can be made without any capital gains tax being charged.

4. Individual Savings Accounts

ISAs are tax-exempt savings accounts available to individuals. At Franklyn & Co, we advise individuals on tax efficient investments in the Nottinghamshire area. Some information about ISAs is given below.

Successive governments, concerned at the relatively low level of savings in the UK economy, have over the years introduced various means by which individuals can save through a tax-free environment.

What is an Individual Savings Account (ISA)?

ISAs are tax-exempt savings accounts available to individuals aged 18 or over who are resident and ordinarily resident in the UK. ISAs are only available to individual investors and cannot be held jointly.

Investment limits

The overall annual savings limit remains at £20,000 for 2024/25.

The government announced in the Spring Budget 2024 that a new UK ISA would be launched with a £5,000 allowance in addition to the £20,000 that will allow people to invest in UK-focused assets.

Investment choices

Investors are allowed to invest in a cash ISA, an investment ISA, an Innovative Finance ISA, or a combination of the three, subject to not exceeding the overall annual investment limit.

Investors are able to transfer their investments from a stocks and shares ISA to a cash ISA (or vice versa).

ISAs are allowed to invest in cash (including bank and building society accounts and designated National Savings), stocks and shares (including unit trusts, investment funds and government securities with at least five years to run) and life assurance.

A wide range of securities including certain retail bonds with less than five years before maturity, Core Capital Deferred Shares issued by building societies, listed bonds issued by Co-operative Societies and Community Benefit Societies and SME securities that are admitted to trading on a recognised stock exchange are eligible to be held in an ISA, Junior ISA or Child Trust Fund (CTF).

The Innovative Finance ISA can be used for loans arranged via a peer-to-peer (P2P) platform. Peer-to-peer lending is a small but rapidly growing alternative source of finance for individuals and businesses. The Innovative Finance ISA may also invest in debt securities offered via crowdfunding platforms. Existing peer-to-peer loans or crowdfunding debentures cannot be transferred into Innovative Finance ISAs.

Withdraw and replace monies

Money can be withdrawn from an ISA without any of the tax benefits being lost. ISA savers may be able to withdraw and replace money from their cash ISA without it counting towards their annual ISA subscription limit for that year where they hold a 'Flexible ISA'.

Additional ISA allowance for spouses on death

An additional ISA allowance is available for spouses or civil partners when an ISA saver dies. The additional ISA allowance is equal to the value of a deceased person's accounts at the time of their death and is in addition to the normal ISA subscription limit. There are time limits within which the additional allowance has to be used. In certain circumstances an individual can transfer to their own ISA non-cash assets such as stocks and shares previously held by their spouse.

In most cases, it is envisaged that the additional allowance will be used to subscribe to an ISA offered by the same financial institution that provided the deceased person's ISA. As the rules allow the transfer of stocks and shares directly into the new ISA, in many cases the effect will be that the investments are left intact and the spouse becomes the new owner of the deceased person's ISA.

The tax advantaged treatment of ISAs continues whilst an individual's estate is in administration.

Tax advantages

The income from ISA investments is exempt from income tax.

Any capital gains made on investments held in an ISA are exempt from capital gains tax.

Any ISAs held on death will form part of a person's estate for inheritance tax purposes.

The halving of the dividend allowance from £1,000 to £500 in 2024/25 and the reduction in the CGT annual exempt amount from £6,000 to £3,000 in 2024/25, make ISA accounts more attractive for tax efficient share investments going forward.

Uses of an ISA

Many people use an ISA in the first instance to save for a rainy day. Since they were first introduced people have used them to save for retirement, to complement their pension plans or to save for future repayment of their mortgage to give just a few examples. We have known young people, wary of commitment to long-term saving start an ISA and when more certain of the future use it as a lump sum to start another financial plan.

Help to Buy ISA

The Help to Buy ISA, which provides a tax-free savings account for first time buyers wishing to save for a home.

Help to Buy ISA accounts were available until 30 November 2019, when this type of account was withdrawn for new savers. Those individuals that already have an account can keep saving until 30 November 2029, when accounts will close to additional contributions. An individual must claim their bonus by 1 December 2030.

The scheme provides a government bonus to each person who has saved into a Help to Buy ISA at the point they use their savings to purchase their first home. For every £200 a first time buyer saves, the government will provide a £50 bonus up to a maximum bonus of £3,000 on £12,000 of savings.

Help to Buy ISAs are subject to eligibility rules and limits:

An individual was only eligible for one account throughout the lifetime of the scheme and it was only available to first time buyers.

Interest received on the account will be tax-free.

Savings are limited to a monthly maximum of £200. There was an opportunity to deposit an additional £1,000 when the account was first opened.

The government will provide a 25% bonus on the total amount saved including interest, capped at a maximum of £3,000 which is tax-free.

The bonus will be paid when the first home is purchased.

The bonus can only be put towards a first home located in the UK with a purchase value of £450,000 or less in London and £250,000 or less in the rest of the UK.

The government bonus can be claimed at any time, subject to a minimum bonus amount of £400.

The accounts are limited to one per person rather than one per home so those buying together can both receive a bonus.

Lifetime ISA

A Lifetime ISA is available for adults under the age of 40. Individuals are able to contribute up to £4,000 per year and receive a 25% bonus (up to £1,000) on the contributions from the government, up until the age of 50. Funds, including the government bonus, can be used to buy a first home at any time from 12 months after opening the account, and can be withdrawn from age 60 completely tax-free.

The Lifetime ISA can be used to invest in cash or stocks and shares.

Further details of the Lifetime ISA are as follows:

The savings and bonus can be used towards a deposit on a first home worth up to £450,000 across the country, for retirement (aged 60 and over) or where the account holder is terminally ill (with less than 12 months to live).

Where the funds are withdrawn for any other reason than those listed above, they will have to pay a 25% charge (clawback of the government bonus).

The annual £4,000 allowance will form part of a person's total ISA annual allowance of £20,000.

There is no maximum monthly contribution.

Over a lifetime of contributing to the ISA, a person can save up to £128,000 and receive up to £32,000 of government bonus.

From a person's 50th birthday, no further contributions are allowed and no government bonus is available, although the account will continue to earn interest or investment returns.

After the account holder's 60th birthday they will be able to take all the savings tax-free.

In contrast to the Help to Buy ISA, the Lifetime ISA can be used to fund the initial deposit on the home whereas the Help to Buy bonus can only fund the completion of the purchase. The deposit must be paid within 90 days of completion.

Where funding a house purchase, two first-time buyers can both use their Lifetime ISAs, provided the other conditions are still met.

An individual that has a Help to Buy ISA may transfer those savings into a Lifetime ISA, or continue saving into both. However, only the bonus from one account can be used to buy a house.

Junior Individual Savings Account (Junior ISA)

Junior ISAs are available for UK resident children under the age of 18 who do not have a CTF account. Junior ISAs are tax advantaged and have many features in common with ISAs. They can be cash or stocks and shares based products. The annual subscription limit for Junior ISA and CTF accounts remains at £9,000 for 2024/25. When a child turns 18, the Junior ISA automatically converts into an adult ISA.

A transfer of savings from a CTF to a Junior ISA is permitted at the request of the registered contact for the CTF.

The CTF scheme closed in 2011. CTF accounts started to mature in September 2020 when the first qualifying children reached 18. Without regulatory change the investments would lose their tax advantaged status. CTF and ISA regulations have therefore been made which:

make sure that investments in CTF accounts retain their tax advantaged status post maturity, pending instructions from the account holder

allow savings transferred from a matured CTF to be disregarded for the annual ISA subscription limit.

5. Making Tax Digital for Individuals

Making Tax Digital (MTD) represents a significant change to the way in which taxpayers record their financial information and submit tax returns. At Franklyn & Co, we can provide guidance on the key aspects of MTD for individuals in the Nottinghamshire area.

The government has started phasing in its landmark MTD initiative, which will see taxpayers move to a fully digital tax system.

In this factsheet we outline some of the key issues for individuals including the Personal Tax Account and Simple Assessment.

Making Tax Digital

Making Tax Digital for Business (MTDfB) was introduced in the 2015 Spring Budget. The government's 'Making Tax Easier' document was published shortly after, and outlined plans for the 'end of the tax return'. It also set out the government's vision to modernise the UK's tax system, with digital tax accounts set to replace tax returns for ten million individuals and five million small businesses.

Revised timescales

However, industry experts and those within the accountancy sector expressed concerns over the proposed pace and the scale of the introduction of MTDfB. As a result, the government amended the initial timetable for the initiative's implementation, to allow businesses and individuals 'plenty of time to adapt to the changes'.

The focus of MTD is currently VAT, which was implemented from April 2019.

The mandation of MTD for ITSA will now be introduced from April 2026, with businesses, self-employed individuals and landlords with income over £50,000 mandated to join first, a change from the current £10,000 limit.

Those with income over £30,000 will be mandated from April 2027.

The government will also review the needs of smaller businesses and look in detail at whether the MTD for ITSA service can be shaped to meet the needs of smaller businesses.

Following the new approach, the government will not extend MTD for ITSA to general partnerships in 2025.

Although MTD has been paused for individuals until at least 2026, HMRC has introduced the Personal Tax Account and Simple Assessment.

The Personal Tax Account

Personal Tax Accounts (PTAs) are digital tax accounts for individuals that have been created by HMRC, and are pre-populated with information held by it. PTAs are designed to permit individual taxpayers to communicate with HMRC, allowing them to update their financial details and check their tax affairs in real time.

Taxpayers may make use of a PTA to make tax payments, provide bank details to HMRC for tax refund purposes and provide details of taxable benefits from employment: for example, the use of a company car.

Individuals can register for a PTA by visiting www.gov.uk/personal-tax-account. The government predicts that, over time, the requirement to complete and file a tax return will lessen for those with straightforward tax affairs.

Simple Assessment

Under Simple Assessment, HMRC has the power to assess an individual's liability to income tax or capital gains tax, without the taxpayer having to fill out and submit a tax return.

Simple Assessment may be used to deal with the tax liabilities of:

state pensioners whose state pension is higher than their personal tax allowance where the tax owed cannot be collected via their tax code.

taxpayers with PAYE liabilities who have underpaid tax and cannot have it collected via their tax code.

Taxpayers are required to ensure that the information provided by HMRC is correct, and pay their income tax liability online, or by cheque, before a specific deadline, as outlined within the letter they receive. If the taxpayer believes the information to be incorrect, customers are given 60 days to contact HMRC.

Those that miss the deadline are encouraged to contact HMRC in order to discuss their circumstances. Individuals who fail to do so may be subject to penalties.

6. Personal tax - self assessment

We summarise the self assessment rules and penalties for failing to comply with your obligations. If you live in the Nottinghamshire area we, at Franklyn & Co, can prepare your tax return on your behalf and advise you on payments that may need to be made to HMRC.

Under the self assessment regime an individual is responsible for ensuring that their tax liability is calculated and any tax owing is paid on time.

The self assessment cycle

Tax returns are issued shortly after the end of the fiscal year. The fiscal year runs from 6 April to the following 5 April (thanks to the switch from the Julian to the Gregorian calendar in 1752), so 2024/25 runs from 6 April 2024 to 5 April 2025. Tax returns are issued to all those whom HMRC are aware need a return including all those who are self-employed or company directors. Those individuals who complete returns online are sent a notice advising them that a tax return is due. If a taxpayer is not issued with a tax return but has tax due they should notify HMRC who may then issue a return.

A taxpayer is normally required to file their tax return by 31 January following the end of the fiscal year. The 2024/25 return must be filed by 31 October 2025 if submitted in 'paper' format. Returns submitted after this date must be filed online otherwise penalties will apply.

Penalties

Late filing penalties apply for personal tax returns as follows:

£100* penalty immediately after the due date for filing (even if there is no tax to pay or the tax due has already been paid).

*The full penalty of £100 will always be due if your return is filed late even if there is no tax outstanding.

Additional penalties can be charged as follows:

over 3 months late – a £10 daily penalty up to a maximum of £900

over 6 months late – an additional £300 or 5% of the tax due if higher

over 12 months late – a further £300 or a further 5% of the tax due if higher. In particularly serious cases there is a penalty of up to 100% of the tax due.

Calculating the tax liability and ‘coding out’ an underpayment

The taxpayer does have the option to ask HMRC to compute their tax liability in advance of the tax being due in which case the return must be completed and filed by 31 October following the fiscal year. This is also the statutory deadline for making a return where you require HMRC to collect any underpayment of tax through your tax code, known as ‘coding out’. However if you file your return online HMRC will extend this to 30 December. Whether you or HMRC calculate the tax liability there will be only one assessment covering all your tax liabilities for the tax year.

Changes to the tax return

Corrections/Amendments

HMRC may correct a self assessment in order to correct any obvious errors or mistakes in the return.

An individual may, by notice to HMRC, amend their self assessment at any time within 12 months of the date of submission.

Enquiries

HMRC may enquire into any return by giving written notice. In most cases the time limit for HMRC is within 12 months following the filing date.

If HMRC does not enquire into a return, it will be final and conclusive unless the taxpayer makes an overpayment relief claim or HMRC makes a discovery.

It should be emphasised that HMRC cannot query any entry on a tax return without starting an enquiry. The main purpose of an enquiry is to identify any errors on, or omissions from, a tax return which result in an understatement of tax due. Please note however that the opening of an enquiry does not mean that a return is incorrect.

If there is an enquiry, we will also receive a letter from HMRC which will detail the information regarded as necessary by them to check the return. If such an eventuality arises we will contact you to discuss the contents of the letter.

Keeping records

HMRC wants to ensure that underlying records to the return exist if they decide to enquire into the return.

Records are required of income, expenditure and reliefs claimed. For most types of income this means keeping the documentation given to the taxpayer by the person making the payment. If expenses are claimed records are required to support the claim.

Checklist of books and records required for HMRC enquiry

Employees and Directors

Details of payments made for business expenses (eg receipts, credit card statements)

Share options awarded or exercised

Deductions and reliefs

Documents you have signed or which have been provided to you by someone else:

Interest and dividends

Tax deduction certificates

Dividend vouchers

Gift aid payments

Personal pension plan certificates.

Personal financial records which support any claims based on amounts paid (eg certificates of interest paid).

Business

Invoices, bank statements and paying-in slips

Invoices for purchases and other expenses

Details of personal drawings from cash and bank receipts

7. Personal tax - when is income tax and capital gains tax payable?

Under self assessment an individual is responsible for ensuring that their tax liability is calculated and any tax owing is paid on time. We summarise the tax payment rules and penalties for failing to pay on time. If you live in the Nottinghamshire area we, at Franklyn & Co, can prepare your tax return on your behalf and advise you on payments that may need to be made to HMRC.

Payment of tax

The UK income tax system requires the payer of certain sources of income to deduct tax at source which removes the need for many taxpayers to submit a tax return or make additional payments. This applies in particular to employment income. Interest is now received gross of tax but the savings allowance removes most taxpayers from the need to pay tax on such income. However deduction of tax at source is not possible for the self employed or if someone has substantial investment income. As a result we have a payment regime in which the payments will usually be made in instalments.

The instalments consist of two payments on account of equal amounts:

the first on 31 January during the tax year and

the second on 31 July following.

These are set by reference to the previous year's net income tax liability (and Class 4 NIC if any).

A final payment (or repayment) is due on 31 January following the tax year.

In calculating the level of instalments any tax attributable to capital gains is ignored. All capital gains tax is paid as part of the final payment due on 31 January following the end of the tax year.

A statement of account similar to a credit card statement is sent to the taxpayer periodically which summarises the payments required and the payments made.

Example

Sally's income tax liability for 2022/23 (after tax deducted at source) is £8,000. Her liability for 2023/24 is £10,500. Payments will be:

Date	Amount	£
31.1.2024	First instalment (50% of 2022/23 liability)	4,000

31.7.2024 Second instalment (50% of 2022/23 liability) 4,000

31.1.2025 Final payment (2022/23 liability less sums already paid) 2,500

£10,500

There will also be a payment on 31 January 2025 of £5,250, the first instalment of the 2024/25 tax year (50% of the 2023/24 liability).

Late payment penalties and interest

Using the late payment penalties HMRC may charge the following penalties if tax is paid late:

A 5% penalty if the tax due on the 31 January is not paid within 30 days (the 'penalty date' is the day following)

A further 5% penalty if the tax due on 31 January is not paid within 5 months after the penalty date

Additionally, there will be a third 5% penalty if the tax due on 31 January is not paid within 11 months after the penalty date.

These penalties are additional to the interest that is charged on all outstanding amounts, including unpaid penalties, until payment is received.

Nil payments on account

Where there is only a modest amount of income tax due, after tax deducted at source has been accounted for, then the two payments on account will be set at nil. This applies if either:

income tax (and NIC) liability for the preceding year - net of tax deducted at source and tax credit on dividends - is less than £1,000 in total or

more than 80% of the income tax (and NIC) liability for the preceding year was met by deduction of tax at source and from tax credits on dividends.

Claim to reduce payments on account

If it is anticipated that the current year's tax liability will be lower than the previous year's, a claim can be made to reduce the payments on account. We can advise you whether a claim should be made and to what amount

8. Property investment - buy to let

Buy to let traditionally involves investing in property with the expectation of capital growth with the rental income from tenants covering the mortgage costs and any outgoings. If you live in the Nottinghamshire area we, at Franklyn & Co, can help you sort out some of the potential problems that may arise and structure the investment appropriately.

The UK property market, whilst cyclical, has proved over the long-term to be a very successful investment. This has resulted in a massive expansion in the buy to let sector.

Buy to let involves investing in property with the expectation of capital growth with the rental income from tenants covering the mortgage costs and any outgoings.

However, the gross return from buy to let properties (ie the rent received less costs such as letting fees, maintenance, service charges and insurance) is no longer as attractive as it once was. Investors need to take a view on the likelihood of capital appreciation exceeding inflation.

This factsheet should be considered only in the context of a UK resident property owner.

Factors to consider

Do

think of your investment as medium to long-term

research the local market

do your sums carefully

consider decorating to a high standard to attract tenants quickly.

Don't

purchase anything with serious maintenance problems

think that friends and relatives can look after the letting for you - you're probably better off with a full management service

cut corners with tenancy agreements and other legal documentation.

Which property?

Investing in a buy to let property is not the same as buying your own home. You may wish to get an agent to advise you of the local market for rented property. Is there a demand for say, two bedroom flats or four bedroom houses or properties close to schools or transport links? An agent will also be able to advise you of the standard of decoration and furnishings which are expected to get a quick let.

Agents

Letting property can be very time consuming and inconvenient. Tenants will expect a quick solution if the central heating breaks down over the bank holiday weekend! Also do you want to advertise the property yourself and show around prospective tenants? An agent will be able to deal with all of this for you.

Tenancy agreements

This important document will ensure that the legal position is clear.

Taxation

When buying to let, taxation aspects must be considered.

Tax on rental income

Income tax will be payable on the rents received after deducting allowable expenses. Allowable expenses include repairs, agent's letting fees and an allowance for furnishings.

Restriction loan interest relief for 'buy to let' landlords

The amount of income tax relief landlords can get on residential property finance costs has been restricted to the basic rate of income tax. Finance costs include mortgage interest, interest on loans to buy furnishings and fees incurred when taking out or repaying mortgages or loans. No relief is available for capital repayments of a mortgage or loan.

Landlords are no longer able to deduct all of their residential finance costs from their property income. They will instead receive a basic rate reduction from their income tax liability for their finance costs. This restriction does not apply to landlords of furnished holiday lettings or to non-residential landlords.

Replacement of furnishings

A relief enables all landlords of residential dwelling houses to deduct the costs they actually incur on replacing furnishings, appliances and kitchenware in the property. Relief is due on the cost of replacing furnishings to a wide range of property businesses.

This measure gives relief for the cost of replacing furnishings to a wider range of property businesses as previously there was no tax relief for the replacement of furnishings in partly furnished or unfurnished properties.

Examples of eligible capital expenditure are:

furniture

furnishings

appliances (including white goods)

kitchenware

but excludes items which are fixtures.

However, the relief is limited to the cost of an equivalent item if there is an improvement on the old item. The deduction is not available for furnished holiday lettings (where capital allowances are available) or where rent-a-room relief is claimed.

Tax on sale

Capital gains tax (CGT) will be payable on the eventual sale of the property. The tax will be charged on the disposal proceeds less the original cost of the property, certain legal costs and any capital improvements made to the property. This gain may be further reduced by any annual exemption available.

CGT is generally charged at 10%, within the basic rate and 20% for higher rates. However 18% and 24% rates apply to chargeable gains arising on the disposal of residential property that does not qualify for private residence relief.

CGT is payable on 31 January after the end of the tax year in which the gain is made. A payment on account of any CGT due on the disposal of residential property is required to be made within 60 days of the completion of the disposal.

Student lettings

Buy to let may make sense if you have children at college or university. It is important that the arrangement is structured correctly. The student should purchase the property (with the parent acting as guarantor on the mortgage). There are several advantages to this arrangement.

Advantages

This is a cost effective way of providing your child with somewhere decent to live.

Rental income on letting spare rooms to other students should be sufficient to cover the mortgage repayments from a cash flow perspective.

As long as the property is the child's only property it should be exempt from CGT on its eventual sale as it will be regarded as their main residence.

The amount of rental income chargeable to income tax is reduced by a deduction known as 'rent a room relief' (£7,500 per annum from 6 April 2016). In this situation no expenses are tax deductible. Alternatively expenses can be deducted from income under normal letting rules where this is more beneficial.

Furnished holiday lettings

Furnished holiday letting (FHL) is another type of investment that could be considered. This form of letting is short holiday lets as opposed to letting for the residential market.

NOTE: The Furnished Holiday Lettings regime is being abolished from 2025/26. Minimal details of the abolishment have been provided. This factsheet will be updated in due course.

The favourable tax regime for furnished holiday letting accommodation includes qualifying property located anywhere in the European Economic Area (EEA). In order to qualify for FHL treatment certain conditions have to be met. These include the property being available for letting for at least 210 days in each tax year and being actually let for 105 days. Provided that there is a genuine intention to meet the actual letting requirement it will be possible to make an election to keep the property as qualifying for up to two years even though the condition may not be satisfied in those years. This will be particularly important to preserve the special CGT treatment of any gain as qualifying for the lower CGT rate of 10% where the conditions for Business Asset Disposal Relief (BADR) are satisfied.

Losses arising in an FHL business cannot be set against other income of the taxpayer. Separate claims would need to be made for UK losses and EEA losses. Each can only be offset against profits of the same or future years in each relevant sector.

FHL property has some advantages but it has other disadvantages which should also be considered.

Advantages

You will be able to take a holiday in your own property, or make it available some of the time to your family or friends. However, care would need to be taken to adjust the level of expenses claimed to reflect this private use.

Generally however the rules for allowable expenditure are more generous. You are able to claim capital allowances on items such as furniture for the FHL.

Disadvantages

Holiday letting will have higher agent's fees, advertising costs, and maintenance fees (for example more regular cleaning).

Owning a holiday property may be more time consuming than you think and you may find yourself spending your precious holiday sorting out problems.

If you would like any further advice in this area please get in touch.

Tax allowance for property and trading income

Two £1,000 allowances for property and trading income are available.

Where the allowances cover all of an individual's relevant income (before expenses) then they no longer have to declare or pay tax on this income. Those with higher amounts of income have the choice, when calculating their taxable profits, of deducting the allowance from their receipts, instead of deducting the actual allowable expenses. The trading allowance will also apply for Class 4 NICs.

The allowances do not apply to income on which rent a room relief is given. Neither do the allowances apply to partnership income from carrying on a trade, profession or property business in partnership.

The trading allowance may also apply to certain miscellaneous income from providing assets or services to the extent that the £1,000 trading allowance is not otherwise used.

9. Property investment - tax aspects

On the basis that the investment in property appears to make commercial sense what tax factors should you take into account? If you are considering property investment in the Nottinghamshire area we, at Franklyn & Co, can help you to make property investments in a tax efficient manner.

Investment in property has been and continues to be a popular form of investment for many people. It is seen as a route by which:

relatively secure capital gains can be made on eventual sale

income returns can be generated throughout the period of ownership

mortgage finance is covered in repayment terms by the security of the eventual sale of the property and in interest terms by the rental income.

Of course, the net returns in capital and income will depend on a host of factors. But on the basis that the investment appears to make commercial sense, what tax factors should you take into account?

This factsheet should be considered only in relation to a UK resident property owner.

Who or what should purchase the property?

An initial decision needs to be made whether to purchase the property:

as an individual

as a joint owner or via a partnership (often with a spouse)

via a company.

There are significant differences in the tax effects of ownership by individuals or a company.

Deciding on the best medium will depend on a number of factors.

Commercial property

You are currently trading as a limited company

The personal purchase of new offices or other buildings and the charging of rent for the use of the buildings to your company is very tax efficient from an income tax position as:

the rental you receive from the company allows sums to be extracted without national insurance

the company will be able to claim a corporate tax deduction for the rent

finance costs are currently deductible from the rents.

Capital gains

Capital gains on the disposal of an asset are generally calculated by deducting the cost of the asset from the proceeds on disposal and reducing this by the annual exemption. Gains are treated as an individual's top slice of income and are generally taxed at 10% and 20% or a combination of the two. However gains on residential property are charged at 18% and 24%.

Capital gains tax (CGT) and Business Asset Disposal Relief (BADR)

Unfortunately BADR is unlikely to be available on the disposal of business premises used by your company where rent is paid. This is due to the restrictions on obtaining the relief on what is known as an ‘associated disposal’. These restrictions include the common situation where a property is currently in personal ownership, but is used in an unquoted company or partnership trade in return for a rent. Under the BADR provisions such relief is restricted where commercial rent is paid.

Residential property

The decision as to who should own a residential property to let is a balancing act depending on overall financial objectives.

The answer will be dependent on the following factors:

do you already run your business through your own company?

how many similar properties do you want to purchase in the future?

do you intend to sell the property and when?

Company versus personal ownership - eventual disposal

If you already run your business through a company it may be more tax efficient to own the property personally as you will be able to make use of your CGT annual exemption (and your spouse’s annual exemption if jointly owned) on eventual disposal to reduce the gain.

However, the corporation tax rates applicable to a company disposing of a property may be lower than the CGT rates applying to an individual on the disposal of residential property (18% and 24%).

Company versus personal ownership - rental income

For personally-owned property the net rental income will be taxed at your marginal rate of tax. Tax relief for finance is limited to 20% as a basic rate income tax reducer.

In contrast, the net rental income will be taxed at the corporation tax rate which may be lower than the income tax rates for an individual depending on the amount of rental and other sources of income. Where the purchase is being financed with a high percentage of loan/bank finance, the corporation tax bill should be relatively small.

But there are other factors to consider:

there is frequently a further tax charge should you wish to extract any of the proceeds from the company

inserting the property into an existing company may result in your shareholding in that company not qualifying for BADR. You could however form another company to protect the trading status of the existing company.

If you do not have a company at present

Personal or joint ownership may be the more appropriate route but there are currently other significant advantages of corporate status particularly if you expect that:

you will be increasing your investment in residential property

you are unlikely to be selling the properties on a piecemeal basis; or

you are mainly financing the initial purchases of the property from your own capital.

If so, the use of a company as a tax shelter for the net rental income can be attractive.

Use of a company as a tax shelter

Profits will be taxed at the corporation tax rate which is up to 25% depending on the level of profits. This rate applies to trading companies or property investment companies. Where profits are retained, the income may suffer less than if income tax applied. That means there are more funds available to buy more properties in the future.

Tax efficient long-term plans

There are two potential long-term advantages of the corporate route for residential property:

is there an intention to sell the properties at all? Maybe the intention is to retain them into retirement (see below 'using the company as a retirement fund')

can the shares be sold rather than the property?(See below for issues regarding selling the shares.)

Using the company as a retirement fund

A potentially attractive route is to consider the property investment company as a 'retirement fund'. If the properties are retained into retirement, it is likely that any initial financing of the purchases of the property has been paid off and there will be a strong income stream. The profits of the company (after paying corporation tax) can be paid out to you and/or your spouse as shareholders.

Where the profits are taken by way of dividend:

the cash dividend is the gross amount potentially subject to tax

a Dividend Allowance charges the first £500 of dividends received in a tax year at 0%

for dividends above £500, dividend income will be taxed at 8.75% for basic rate taxpayers, 33.75% for higher rate taxpayers and 39.35% for additional rate taxpayers.

Selling the shares

CGT will be due on the gain on the eventual sale of the shares.

The share route may also be more attractive to the purchaser of the properties rather than buying the properties directly, as they will only have 0.5% stamp duty to pay rather than the potentially higher sums of Stamp Duty Land Tax (SDLT) on the property purchases.

SDLT and devolved property taxes

SDLT is payable by the purchaser of the property in England and Northern Ireland. Land and Buildings Transaction Tax is payable in Scotland and Land Transaction Tax is payable in Wales.

Corporate investment in expensive residential property

Where expensive residential property, valued at more than £500,000, is purchased by a 'non natural person', broadly a company, there is a potential charge - the Annual Tax on Enveloped Dwellings (ATED). The ATED is payable by those purchasing and holding residential property through corporate envelopes, such as companies. In addition a higher rate of SDLT of 15% applies to the purchase.

There are exemptions from the higher rate of SDLT and the ATED charge; in particular, property companies letting out residential properties to third parties.

10. Taxation of the family

Individuals are subject to a system of independent taxation so spouses and civil partners are taxed separately. This can give rise to valuable tax planning opportunities. Furthermore, the tax position of any children is important. Marriage and civil partnership breakdowns can also have a considerable impact for tax purposes. We consider the relevant issues and the basic tax planning opportunities. If you live in the Nottinghamshire area we, at Franklyn & Co can help you plan a tax efficient strategy depending on you and your family's personal circumstances.

It is important that professional advice is sought on specific issues relevant to your personal circumstances.

Setting the scene

Married couples and civil partners

Independent taxation means that spouses and civil partners are taxed separately on their income and capital gains. The effect is that both have their own allowances, savings and basic rate tax bands for income tax, annual exemption for capital gains tax purposes and are responsible for their own tax affairs.

Children

A child is an independent person for tax purposes and is therefore entitled to a personal allowance and the savings and basic rate tax band before being taxed at the higher rate. It may be possible to save tax by generating income or capital gains in the children's hands.

Marriage and civil partnership breakdown

Separation, divorce and dissolution can have significant tax implications. In particular, the following areas warrant careful consideration:

available tax allowances

transfers of assets between spouses.

Tax planning for married couples and civil partners

Income tax allowances and tax bands

Everyone is entitled to a basic personal allowance. This allowance cannot however be transferred between spouses and civil partners except for the circumstances outlined below.

Marriage Allowance

Married couples and civil partners may be eligible for a Marriage Allowance (MA).

The MA enables spouses and civil partners to transfer a fixed amount of their personal allowance to their partner. The option to transfer is not available to unmarried couples.

The option to transfer is available to couples where neither pays tax at the higher or additional rate. If eligible, one partner is able to transfer 10% of their personal allowance to the other partner, which is currently £1,260.

Couples are entitled to the full benefit in their first year of marriage.

For those couples where one person does not use all of their personal allowance the benefit will be worth approximately £250.

Eligible couples can apply for the MA at www.gov.uk/marriage-allowance. The spouse or partner with the lower income applies to transfer some of their personal allowance by entering some basic details.

Those who do not apply via the Government Gateway will be able to make an application at a later date and still receive the allowance.

If either spouse or civil partner were born before 6 April 1935, then a Married Couple's Allowance (MCA) is available. For marriages before 5 December 2005 the allowance is based on the husband's income, for marriages and civil partnerships formed after that date the allowance is based on the income of the highest earner. It is not possible to claim both the MA and the MCA; typically the MCA will provide higher relief where available.

Joint ownership of assets

In general, married couples and civil partners should try to arrange their ownership of income producing assets so as to ensure that personal allowances are fully utilised and any higher rate liabilities minimised.

Generally, when a couple jointly own assets, any income arising is assumed to be shared equally for tax purposes. This applies even where the asset is owned in unequal shares unless an election is made to split the income in proportion to the ownership of the asset.

Married couples and civil partners are taxed on dividends from jointly owned shares in ‘close’ companies according to their actual ownership of the shares. Close companies are broadly those owned by the directors or five or fewer people. For example if a spouse is entitled to 95% of the income from jointly owned shares they will pay tax on 95% of the dividends from those shares. This measure is designed to close a perceived loophole in the rules and does not apply to income from any other jointly owned assets.

We can advise on the most appropriate strategy for jointly owned assets so that tax liabilities are minimised.

Capital gains tax (CGT)

Each spouse's CGT liability is computed by reference to their own disposals of assets and each is entitled to their own annual exemption of £3,000 for 2024/25 (£6,000 for 2023/24). Some limited tax savings may be made by ensuring that maximum advantage is taken of any available capital losses and annual exemptions.

This can often be achieved by transferring assets between spouses before sale - a course of action generally having no adverse CGT or inheritance tax (IHT) implications. Advance planning is vital, and the possible income tax effects of transferring assets should not be overlooked.

Further details of how CGT operates are outlined in the factsheet Capital Gains Tax.

Inheritance tax (IHT)

When a person dies IHT becomes due on their estate. Some lifetime gifts are treated as chargeable transfers but most are ignored providing the donor survives for seven years after the gift.

The rate of IHT payable is 40% on death and 20% on lifetime chargeable transfers. The first £325,000 is not chargeable and this is known as the nil rate band.

Transfers of property between spouses are generally exempt from IHT. Rules allow any nil rate band unused on the first death to be used when the surviving spouse dies.

The amount of the nil-rate band available for transfer will be based on the proportion of the nil-rate band which was unused when the first spouse died. Key documentary evidence will be required for a claim, so do get in touch to discuss the information needed.

IHT residence nil rate band

An additional nil rate band is available where an interest in a main residence passes to direct descendants. The amount of relief is £175,000 for 2024/25 and is frozen at this amount until 2028. For many married couples and civil partners the relief is effectively doubled as each individual has a main nil rate band and each will potentially benefit from the residence nil rate band.

The additional band can only be used in respect of one residential property which does not have to be the main family home but must at some point have been a residence of the deceased. Restrictions apply where estates are in excess of £2 million.

Where a person died before 6 April 2017, their estate will not qualify for the relief. A surviving spouse may be entitled to an increase in the residence nil rate band if the spouse who died earlier has not used, or was not entitled to use, their full residence nil rate band. The calculations involved are potentially complex but the increase will often result in a doubling of the residence nil rate band for the surviving spouse.

The residence nil rate band may also be available when a person downsizes or ceases to own a home on or after 8 July 2015 where assets of an equivalent value, up to the value of the residence nil rate band, are passed on death to direct descendants.

Taxpayers now have three nil rate bands to consider. The standard nil rate band has been a part of the legislation from the start of IHT in 1986. In 2007 the ability to utilise the unused nil rate band of a deceased spouse was introduced, enabling many surviving spouses to have a nil rate band of up to £650,000. From 6 April 2020 some surviving spouses are able to add £350,000 in respect of the residence nil rate bands to arrive at a total nil rate band of £1 million. However this will only be achieved by careful planning and, in some cases, it may be better for the first deceased spouse to have given some assets to the next generation and use up some or all of the available nil rate bands.

For many individuals, the residence nil rate band will be important but individuals will need to revisit their wills to ensure that the relief will be available and efficiently utilised.

Gifts

A gift for family maintenance does not give rise to an IHT charge. This would include the transfer of property made on divorce under a court order, gifts for the education of children or maintenance of a dependent relative.

Gifts in consideration of marriage are exempt up to £5,000 if made by a parent with lower limits for other donors.

Small gifts to individuals not exceeding £250 in total per tax year per recipient are exempt. The exemption cannot be used to cover part of a larger gift.

Gifts which are made out of income which are typical and habitual and do not result in a fall in the standard of living of the donor are exempt. Payments under deed of covenant and the payment of annual premiums on life insurance policies would usually fall within this exemption.

Children

Use of allowances and lower rate tax bands

It may be possible for tax savings to be achieved by the transfer of income producing assets to a child so as to take advantage of the child's personal allowance.

This cannot be done by the parent if the annual income arising is above £100. The income will still be taxed on the parent. However, transfers of income producing assets by others (eg grandparents) will be effective.

A parent can however allow a child to use any entitlement to the CGT annual exemption by using a 'bare trust'.

Universal Credit

Universal Credit may be available to some families. To see whether you are entitled to claim visit www.gov.uk/universal-credit.

Junior Individual Savings Accounts (Junior ISA)

The Junior ISA is available for UK resident children under the age of 18 who do not have a Child Trust Fund account. Junior ISAs are tax advantaged and have many features in common with existing ISAs. They are available as cash or stocks and share-based products. The annual subscription limit is £9,000 for 2024/25 (£9,000 for 2023/24).

High Income Child Benefit Charge

A charge applies to a taxpayer who has adjusted net income over £60,000 in a tax year where either they or their partner are in receipt of Child Benefit for the year. Where both partners have adjusted net income in excess of £60,000 the charge will apply to the partner with the higher income.

The income tax charge will apply at a rate of 1% of the full Child Benefit award for each £200 of income between £60,000 and £80,000. The charge on taxpayers with income above £80,000 will be equal to the amount of Child Benefit paid.

Child Benefit claimants can elect not to receive Child Benefit if they or their partner do not wish to pay the charge.

Example

The Child Benefit for two children amounts to £2,212.

The taxpayer's adjusted net income is £68,000.

The income tax charge will be £885.

This is calculated as £22.12 for every £200 above £60,000.

For a taxpayer with adjusted net income of £80,000 or above the income tax charge will equal the Child Benefit.

Marriage and civil partnership breakdown

Maintenance payments

An important element in tax planning on marriage breakdown used to involve arrangements for the payment of maintenance. Generally, no tax relief is due on maintenance payments.

Asset transfers

Marriage and civil partnership breakdowns often involve the transfer of assets between partners. Unless the timing of any such transfers is carefully planned there can be adverse CGT consequences.

If an asset is transferred between a husband and wife or civil partners who are living together, the asset is deemed to be transferred at a price that does not give rise to a gain or a loss. This treatment continues for three years after the tax year in which the separation takes place.

The spousal exemption for IHT continues to apply for any transfers which take place before the granting of a decree absolute on divorce. Transfers after this date may still not be a problem as often there is no gratuitous intent.

11. Tax-Free Childcare

Tax-Free Childcare replaced Employer Supported Childcare, and has the advantage that the self employed, as well as employed individuals, can make use of the scheme. At Franklyn & Co, we can provide guidance on Tax-Free Childcare and Employer Supported Childcare in the Nottinghamshire or surrounding areas.

The government operates a tax incentive for childcare Tax-Free Childcare (TFC).

Overview

Under TFC the tax relief available is 20% of the costs of childcare up to a total of childcare costs of £10,000 per child per year. The scheme will therefore be worth a maximum of £2,000 per child (£4,000 for a disabled child). Parents are able to apply for TFC for children under 12 (up to 17 for children with disabilities).

To qualify for TFC all parents in the household must generally meet a minimum income level, based on working 16 hours a week at National Minimum Wage or Living Wages rates as appropriate and each earn less than £100,000 a year and not already be receiving support through Tax Credits, Universal Credit or the childcare voucher scheme.

Online account

Parents are able to register with the government and open an online account. The government will then 'top up' payments into this account at a rate of 20p for every 80p that families pay in.

Self-employed

Self-employed parents are able to get support with childcare costs using the TFC scheme, unlike the employer supported childcare voucher scheme. To support newly self-employed parents, the government has introduced a 'start-up' period. During this period a newly self-employed parent will not have to earn the minimum income level.

TFC and service issues

All parents of eligible children can apply for both 30 hours of free childcare and TFC via a single website. Parents can apply online through the childcare service which can be accessed via the Childcare Choices website.

Childcare providers

Only childcare providers registered with a regulator can receive Tax-Free Childcare payments.

How does this relate to employer supported childcare?

Employer Supported Childcare (ESC) closed to new entrants in October 2018. ESC continues to be available for current members if they wish to remain in it or they can switch to TFC but parents cannot be in both ESC and TFC at the same time.

VAT

Concise information on the VAT issues you need to consider when running your business. Click on the links below to access the relevant information.

1. VAT - a summary

VAT registered businesses act as unpaid tax collectors and are required to account both promptly and accurately for all the tax revenue collected by them. This factsheet highlights some of the areas that you need to consider when running your business.

2. VAT - annual accounting scheme

The annual accounting scheme helps small businesses by allowing them to submit only one VAT return annually rather than the normal four.

3. VAT - bad debt relief

This factsheet explains the situations where the VAT bad debt relief applies.

4. VAT - cash accounting

Cash accounting enables a business to account for and pay VAT on the basis of cash received and paid rather than on the basis of invoices issued and received. The factsheet explains the workings of cash accounting.

5. VAT - flat rate scheme

The VAT flat rate scheme for small businesses potentially reduces the administrative burden imposed when operating VAT. Under the scheme, a set percentage is applied to the turnover of the business as a one-off calculation instead of having to identify and record the VAT on each sale and purchase you make. This factsheet explains how the VAT Flat Rate Scheme works.

6. VAT - Making Tax Digital

An overview of the Making Tax Digital for VAT regulations.

7. VAT - seven key points for the smaller business

This factsheet focuses on VAT matters of relevance to the smaller business. A primary aim is to highlight common risk areas as a better understanding can contribute to a reduction of errors and help to minimise penalties.

1. We highlight the key VAT areas you need to consider when running your business. If you are starting or have recently started a business in the Nottinghamshire area we, at Dakin & Co, can help you comply with the VAT regulations.

VAT registered businesses act as unpaid tax collectors and are required to account both promptly and accurately for all the tax revenue collected by them.

The VAT system is policed by HMRC with heavy penalties for breaches of the legislation. Ignorance is not an acceptable excuse for not complying with the rules.

We highlight below some of the areas that you need to consider.

It is however important for you to seek specific professional advice appropriate to your circumstances.

What is VAT?

Scope

A transaction is within the scope of VAT if:

- there is a supply of goods or services
- it was made in the UK
- it was made by a taxable person
- it was made in the course or furtherance of business.

Inputs and outputs

Businesses charge VAT on their sales. This is known as output tax and the sales are referred to as outputs. Similarly VAT is charged on most goods and services purchased by a business. This is known as input tax.

The output tax is collected from the customer by the business on behalf of HMRC and must be regularly paid over to them by being included in a VAT return.

However, the input tax suffered on the goods and services purchased can be deducted from the amount of output tax owed, so that only the net tax due is paid to HMRC. Please note that certain categories of VAT can never be reclaimed as input tax, such as that in respect of third party UK business entertainment and most purchases of motor cars.

Points to consider

Supplies

Taxable supplies are mainly either standard rated (20%) or zero rated (0%). There is, in addition, a reduced rate of 5% which applies to a small number of certain specific taxable supplies.

There are certain supplies that are not taxable and these are categorised as exempt supplies.

There is an important distinction between exempt supplies and zero-rated supplies:

- If your business is making only exempt supplies you cannot register for VAT and therefore cannot recover any input tax.

- If your business is making zero-rated supplies you should register for VAT as your supplies are taxable (albeit at 0%) and recovery of input tax is allowed.

Registration - is it necessary?

You are required to register for VAT if the value of your taxable supplies exceeds a set threshold. This threshold is applied in two different ways - either 'looking back' at the value of taxable supplies made in the previous 12 months, or 'looking forward' to taxable supplies anticipated in the next 30 days alone. The applicable threshold is £90,000 with effect from 1 April 2024.

If you are making taxable supplies below the threshold you can apply for voluntary registration. This would allow you to reclaim input VAT, which could result in a repayment of VAT, for example, if your business was principally making zero-rated supplies.

If you have not yet started to make taxable supplies but intend to do so, you can apply for registration as an 'intending trader'. In this way input tax on start up expenses can be recovered.

Taxable person

A taxable person is anyone who makes or intends to make taxable supplies and is registered or required to be registered for VAT. For the purpose of VAT registration a 'person' includes:

- individuals
- partnerships
- companies, clubs and associations
- charities.

If any individual carries on two or more business activities all the supplies made in those businesses will be added together in determining whether or not the individual is required to register for VAT.

Administration

Once registered you must make a quarterly return to HMRC showing the amount of output tax to be accounted for on sales income and the amount of deductible input tax on expenditure, together with other statistical information. All businesses must file their returns online using software that meets requirements set by HMRC.

In most cases, an online VAT return must be completed and submitted within one month and seven days from the end of the period it covers.

Electronic payment by the same due date is also compulsory for all businesses.

Businesses making zero-rated supplies and which receive net repayments of VAT may find it beneficial from a cashflow perspective to submit monthly returns.

Businesses with expected annual taxable supplies not exceeding £1,350,000 may apply to join the annual accounting scheme whereby they will make monthly or quarterly payments of VAT but will only have to complete one VAT return at the end of the year.

Businesses trading below the £1,350,000 taxable turnover threshold may also wish to consider the cashflow benefits of joining the cash accounting scheme, whereby VAT is accounted for on sales and purchases on a cash book basis, rather than on an accruals basis.

Record keeping

It is important that a VAT registered business maintains complete and up-to-date records. This includes details of all supplies, purchases and expenses.

In addition, a VAT account should be maintained. This is a summary of output tax payable and input tax recoverable by the business. All business records should be kept for six years.

The above records must be maintained in software that meets HMRC requirements. HMRC does not provide free software.

Inspection of records

The maintenance of records and calculation of the VAT liability is the responsibility of the registered person but HMRC will need to be able to check that the correct amount of VAT is being paid. From time to time therefore a VAT officer may come and inspect the business records. This is known as a control visit.

The VAT officer will want to ensure that VAT rules are being applied correctly and that the returns and other VAT records are properly maintained.

However, you should not assume that in the absence of any errors being discovered during a visit, your business has been given a clean bill of health by HMRC.

Offences and penalties

HMRC has wide powers to penalise businesses that ignore or incorrectly apply the VAT regulations. Penalties (and in some instances interest) can be levied by HMRC in respect of the following:

- late returns/payments
- late registration
- errors in returns.

Retail schemes

There are special schemes available for retailers as it can be impractical for some retailers to maintain all the records required of a VAT registered trader.

Flat Rate scheme

This is a scheme allowing smaller businesses (with annual taxable turnover not exceeding £150,000) to pay their VAT to HMRC calculated as a percentage of their total business income. Therefore no specific claims to recover input tax need be made and this can reduce the record-keeping requirements. The aim of the scheme is to simplify the way smaller businesses account for VAT, but for some businesses it can actually result in a reduction in the overall amount of VAT that is payable to HMRC.

Making Tax Digital for Business: VAT

Under Making Tax Digital for VAT (MTDfV), all VAT registered businesses must keep digital records for VAT purposes and provide their VAT return information to HMRC using MTD functional compatible software.

There are some exemptions from MTDfV. However, the exemption categories are tightly-drawn and are unlikely to be applicable to most VAT registered businesses.

How we can help

Ensuring that you comply with all the VAT regulations is essential. We can assist you in a number of ways including the following:

- tailoring your accounting systems to bring together the VAT information accurately and quickly
- ensuring that your business is VAT efficient
- providing assistance with the completion of VAT returns
- negotiating with HMRC if disagreements arise and in reaching settlements
- advising as to whether any of the available schemes may be appropriate for you
- helping you comply with the MTD for VAT regime.

2. VAT - annual accounting scheme

The annual accounting scheme helps small businesses by allowing them to submit only one VAT return annually rather than the normal four. The scheme is intended to help with budgeting and cash flow and reduce paperwork. If you are starting or have recently started a business in the Nottinghamshire area we, at Dakin & Co, can advise you on the annual accounting scheme.

HMRC have introduced a number of VAT schemes over the years designed to reduce the administrative burden on small businesses. One such scheme is the annual accounting scheme.

What is the annual accounting scheme?

The annual accounting scheme helps small businesses by allowing them to submit only one VAT return annually rather than the normal four. During the year they pay instalments based on an estimated liability for the year with a balancing payment due with the return. The scheme is intended to help with budgeting and cash flow and reduce paperwork.

Joining the scheme

A business can apply to join the scheme if it expects taxable supplies in the next 12 months will not exceed £1,350,000.

Businesses must be up to date with their VAT returns and cannot register as a group of companies.

Application to join the scheme must be made on form 600(AA) which can be found on the GOV.UK website or via a link in the online version of VAT Notice 732. HMRC will advise the business in writing if the application is accepted.

Paying the VAT

Businesses that have been registered for 12 months or more will pay their VAT in nine monthly instalments of 10% of the previous year’s liability. The instalments are payable at the end of months 4-12 of the current annual accounting period.

Alternatively such businesses may choose to pay their VAT in three quarterly instalments of 25% of the previous year’s liability falling due at the end of months 4, 7 and 10.

The balance of VAT for the year is then due together with the VAT return two months after the end of the annual accounting period.

Businesses that have not been registered for at least 12 months may still join the scheme but each instalment – whether monthly or quarterly – is based on an estimate of the VAT liability.

In all cases HMRC will advise the amount of the instalments to be paid.

The annual accounting period will usually begin at the start of the quarter in which the application is made. If the application is made late in a quarter it may begin at the start of the next quarter.

All businesses are able to apply to HMRC to change the level of the instalments if business has increased or decreased significantly.

Leaving the scheme

Any business can leave the scheme voluntarily at any time by writing to HMRC.

A business can no longer be in the scheme once its annual taxable turnover exceeds £1,600,000.

Advantages of the scheme

A reduction in the number of VAT returns needed each year, from four to one.

Because the liability to be paid each month is known and certain, cash flow can be managed more easily.

There is an extra month to complete the VAT return and pay any outstanding tax.

It should help to simplify calculations where the business uses a retail scheme or is partly exempt.

Potential disadvantages

Interim payments may be higher than needed because they are based on the previous year. However, it is possible to apply to HMRC for an adjustment if the difference is significant.

A business is obliged to notify HMRC if the VAT liability is likely to be significantly higher or lower than in the previous year.

3. VAT - bad debt relief

VAT Bad debt relief allows businesses that have made supplies on which they have accounted for and paid VAT but for which they have not received payment to claim a refund of the VAT. We explain the situations where the relief applies. If your business is in the Nottinghamshire area we, at Dakin & Co can provide any further information you require on VAT matters.

It is quite possible within the VAT system for a business to be in the position of having to pay over VAT to HMRC while not having received payment from their customer.

Bad debt relief allows businesses that have made supplies on which they have accounted for and paid VAT but for which they have not received payment, to claim a refund of the VAT by reference to the outstanding amount.

The Conditions for Relief

In order to make a claim a business must satisfy a number of conditions, the key ones being:

goods and services have been supplied and the VAT in question has been accounted for and paid to HMRC

six months has elapsed since the date of supply and the due date for payment, whichever is the later

The debt has not been sold, factored or otherwise assigned to another party

all or part of the outstanding amount must have been written off in the day-to-day accounting records as a bad debt (to a separate 'refunds for bad debts account').

Making the Claim

A claim is made by entering the appropriate amount in Box 4 of the VAT return for the period in which entitlement to the claim arises (or any permissible later period).

It is not permitted to issue a credit note to the customer in respect of any bad debt claims.

The amount of any VAT relief is calculated with reference to the outstanding amount. In cases where part payment has been received from the customer the outstanding amount must be treated as VAT-inclusive, and hence relief can be claimed only on VAT relating to the amount that remains unpaid.

If a claim for bad debt relief is made via the VAT return and the customer subsequently makes a partial or full payment, the taxpayer is obliged to reverse or adjust their claim accordingly.

Records

Businesses making bad debt relief claims must keep records for four years from the date of the claim to show:

the time and nature of supply, purchaser and consideration - normally a copy of the VAT invoice will show this

the amount of VAT and the accounting period it was paid to HMRC

any payment received for the supply

details of entries in the ‘refunds for bad debts account’.

Repayment of Input Tax by Purchaser

This measure might be described as the reverse of bad debt relief since it focuses on the customer rather than the supplier.

Where a customer has not paid a supplier within six months of the date of the supply or, if later, the date payment is due, VAT previously claimed as input tax, must be repaid to HMRC via the VAT return. This puts a burden on all VAT registered businesses to monitor their purchase ledger to anticipate whether they need to reverse any input tax recovered on goods and services received from suppliers.

4. VAT - cash accounting

We summarise the workings of cash accounting for VAT. If you are starting or have recently started a business in the Nottinghamshire area we, at Dakin & Co, can advise you on the cash accounting scheme.

Cash accounting enables a business to account for and pay VAT on the basis of cash received and paid, rather than on the basis of invoices issued and received.

Advantages and Disadvantages of the Scheme

The advantages of the scheme are as follows:

Output tax on sales income is not due until the business receives payment of its sales invoices. If customers pay promptly, the advantage will be limited. Even so, the gain may be material.

There is automatic VAT bad debt relief because, if no payment is received, no output tax is due.

Most smaller businesses find it easier to think in terms of cash flows in and out of their business than invoiced amounts.

The potential disadvantages are as follows:

There is no input tax recovery until payment of suppliers' invoices is made.

The scheme will not be beneficial for net repayment businesses - for example, a business just starting up, which has substantial initial expenditure on equipment, stocks etc. so that input tax exceeds output tax, should normally delay joining the scheme. That way, it can make use of the accruals basis to recover the initial input tax on the basis of invoices received, as opposed to payments made.

Key Rules

A business can join the scheme if it has reasonable grounds for believing that taxable turnover in the next 12 months will not exceed £1,350,000 and provided that it:

is up to date with VAT returns

has paid over all VAT due or has agreed with HMRC a basis for settling any outstanding amount in instalments

has not in the previous year been convicted of any VAT offences.

All standard and zero-rated supplies count towards the £1,350,000 threshold except anticipated sales of capital assets previously used within the business. Exempt supplies are excluded from the calculation.

When a business joins the scheme, it must be careful not to account again for VAT on any amounts already dealt with previously on the basis of invoices issued and received.

A business can start using the scheme without informing HMRC.

The cash accounting scheme does not cover:

goods bought or sold under lease or hire-purchase agreements

goods bought or sold under credit sale or conditional sale agreements

supplies invoiced where full payment is not due within six months

supplies invoiced in advance of delivering the goods or performing the services.

Once annual taxable turnover exceeds £1,600,000 the business must leave the scheme immediately.

On leaving the scheme, in principle VAT becomes due on all supplies on which it has not already been accounted for. Unclaimed input tax on invoices received can be offset against the output tax. However in order to smooth the transition from cash accounting to accruals accounting HMRC allows a period whereby all VAT that is outstanding at the date of leaving the scheme can still be accounted for on a cash basis for a further six months after leaving the scheme.

Accounting for VAT

Output tax must be accounted for when payment is received. There are specific rules for different types of payment:

Cheque

Treated as received on the date the cheque is received or if later, the date on the cheque. If the cheque is not honoured an adjustment can be made.

Credit/debit card

Treated as received/paid on the date of the sales voucher.

Standing order/direct debits

Treated as received/paid on the day the bank account is credited.

Part payments

VAT must be accounted for on all receipts/payments even where they are part payments. Part payments are allocated to invoices in date order (earliest first) and any part payment of an invoice allocated to VAT by making a fair and reasonable apportionment.

Records

Under the cash accounting scheme the prime record will be a cash book that summarises all payments made and received with a separate column for VAT. The payments need to be clearly cross-referenced to the appropriate purchase/sales invoice.

In addition the normal requirements regarding copies of VAT invoices and evidence of input tax apply.

5. VAT - flat rate scheme

We explain how the VAT Flat Rate Scheme operates. The VAT flat rate scheme for small businesses reduces the administrative burden of operating VAT. If you are starting or have recently started a business in the Nottinghamshire area we, at Dakin & Co, can advise as to whether the flat rate scheme is appropriate to you and your business.

The flat rate scheme for small businesses was introduced to reduce the administrative burden imposed when operating VAT.

Under the scheme a set percentage is applied to the turnover of the business as a one-off calculation instead of having to identify and record the VAT on each sale and purchase that is made.

Who can join?

The scheme is optional and available to businesses with anticipated taxable turnover (excluding VAT) of £150,000 or less in the next 12 months. A business must leave the scheme when income in the last twelve months exceeds £230,000, unless HMRC are satisfied that income will fall below £191,500 in the following year. A business must also leave the scheme if there are reasonable grounds to believe that total income is likely to exceed £230,000 in the next 30 days.

The turnover test applies to your anticipated turnover in the following 12 months. Your turnover may be calculated in any reasonable way but would usually be based on the previous 12 months if you have been registered for VAT for at least a year.

To join the scheme you can apply by post, email or phone and if you are not already registered for VAT you must submit a form VAT1 at the same time.

You may not operate the scheme until you have received notification that your application has been accepted and HMRC will inform you of the date of commencement.

When is the scheme not available?

The flat rate scheme cannot be used if you:

- use the second hand margin scheme or auctioneers' scheme
- use the tour operators' margin scheme
- are required to operate the capital goods scheme for certain items.

In addition the scheme cannot be used if, within the previous 12 months, you have:

- ceased to operate the flat rate scheme
- been convicted of an offence connected with VAT
- been assessed with a penalty for conduct involving dishonesty.

The scheme will clearly be inappropriate if you regularly receive VAT repayments.

How the scheme operates

VAT due is calculated by applying a predetermined flat rate percentage to the business turnover of the VAT period. This will include any exempt supplies and it will therefore not generally be beneficial to join the scheme where there are significant exempt supplies.

The percentage rates are determined according to the trade sector of your business and generally range from 4% to 16.5%. The table in the appendix to this factsheet summarises the percentages. In addition there is a further 1% reduction off the normal rates for businesses in their first year of VAT registration.

If your business falls into more than one sector it is the main business activity as measured by turnover which counts. This can be advantageous if you have a large percentage rate secondary activity and a modest major percentage trade. You should review the position on each anniversary of joining the scheme and if the main business activity changes or you expect it to change during the following year you should use the appropriate rate for that sector.

Although you pay VAT at the flat rate percentage under the scheme you will still be required to prepare invoices to VAT registered customers showing the normal rate of VAT. This is so that they can reclaim input VAT at the appropriate rate.

Example of the calculation

Cook & Co is a partnership operating a café and renting out a flat. If its results are as follows:

VAT inclusive turnover:	**£**
	£79,000
Standard rated catering supplies	70,000
Zero rated takeaway foods	5,500
Exempt flat rentals	3,500

Flat rate 12.5% x £79,000 = £9,875

Normally £70,000 x 20/120 = £11,667 less input tax

During the period 15 July 2020 to 30 September 2021 this calculation is revised to

Flat rate 4.5% x £79,000 = £3,555

And £70,000 x 5/105 (reduced rate) = £3,333 less input tax

Limited cost trader

A 16.5% rate applies for businesses with limited costs, such as many labour-only businesses. Businesses using the FRS, or considering joining the scheme, will need to decide if they are a "limited cost trader".

A limited cost trader will be defined as one whose VAT inclusive expenditure on goods is either:

- less than 2% of their VAT inclusive turnover in a prescribed accounting period
- greater than 2% of their VAT inclusive turnover but less than £1,000 per annum if the prescribed accounting period is one year (if it is not one year, the figure is the relevant proportion of £1,000).

Good, for the purposes of this measure, must be used exclusively for the purpose of the business but exclude the following items:

- capital expenditure
- food or drink for consumption by the flat rate business or its employees
- vehicles, vehicle parts and fuel (except where the business is one that carries out transport services - for example a taxi business - and uses its own or a leased vehicle to carry out those services)
- goods for re-sale, or hiring out, unless selling or hiring is the main business activity
- goods to be used as promotional items or gifts.

These exclusions are part of the test to prevent traders buying either low value everyday items or one off purchases in order to inflate their costs beyond 2%.

Treatment of capital assets

The purchase of capital assets costing more than £2,000 (including VAT) may be dealt with outside the scheme. You can claim input VAT on such items on your VAT return in the normal way. Where the input VAT is reclaimed you must account for VAT on a subsequent sale of the asset at the normal rate instead of the flat rate.

Items under the capital goods scheme are excluded from the flat rate scheme.

Records to keep

Under the scheme you must keep a record of your flat rate calculation showing:

- your flat rate turnover
- the flat rate percentage you have used
- the tax calculated as due.

You must still keep a VAT account although if the only VAT to be accounted for is that calculated under the scheme there will only be one entry for each period.

Summary

The scheme is designed to reduce administration although it will only be attractive if it does not result in additional VAT liabilities. The only way to establish whether your business will benefit is to carry out a calculation and comparison of the normal rules and the flat rate rules.

6. VAT - Making Tax Digital

Making Tax Digital for VAT (MTDfV) fundamentally changes the way in which businesses keep VAT records and submit VAT returns. At Dakin & Co, we can provide guidance on the key aspects of MTDfV and the implications for your business in the Nottinghamshire area.

Over the coming years, the government will phase in its landmark Making Tax Digital (MTD) initiative, which will see taxpayers move to a fully digital tax system.

This factsheet outlines some of the key issues for businesses.

Making Tax Digital for Business

Making Tax Digital for Business (MTDfB) was introduced in the 2015 Spring Budget. The government's 'Making Tax Easier' document was published shortly after, and outlined plans for the 'end of the tax return'. It also set out the government's vision to modernise the UK's tax system, with digital tax accounts set to replace tax returns for ten million individuals and five million small businesses.

Revised timescales

However, industry experts and those within the accountancy sector expressed concerns over the proposed pace and the scale of the introduction of MTDfB, and, as a result, the government amended the timetable for the initiative's implementation, to allow businesses and individuals 'plenty of time to adapt to the changes'.

MTDfB, starting with VAT, took effect from 1 April 2019, as summarised below.

Making Tax Digital for VAT (MTDfV)

Under the rules, all VAT registered businesses must keep digital records for VAT purposes and provide their VAT return information to HMRC using MTD functional compatible software.

Only a small handful of businesses are exempt from complying with MTDfV. Please contact us if you believe your business may be exempt. The only automatic exemptions arise where a business is already exempt from filing VAT returns online or it is formally insolvent.

HMRC also has discretion to grant exemption in very limited circumstances, such as if they are persuaded a business is unable to use a computer, software or the internet for reasons such as disability, location or on religious grounds. Businesses are able to make an appeal against a HMRC refusal of exemption.

MTDfV 2022

Since April 2022 MTDfV has been mandated for all VAT-registered businesses. This means that even voluntarily registered businesses, trading below the current £85,000 compulsory VAT registration threshold, must keep the requisite digital records and file digitally. If this affects you, and you would prefer to consider deregistering for VAT, we are happy to discuss this with you.

VAT returns

Those businesses that fall within the scope of MTDfV are required to submit their VAT returns using software compatible with the MTDfV regulations. Information will be extracted from the digital records in order to populate the VAT return.

The changes introduced as part of the MTDfV project do not affect the statutory VAT return deadlines or payment dates, and businesses that choose to submit VAT returns monthly or annually can continue to do so.

Using third party software and keeping digital records

HMRC do not provide MTDfV software, and manual record keeping is not acceptable. Businesses must keep specified records in 'functional compatible software', which calculates the VAT return and submits it to HMRC via an Application Programme Interface (API).

HMRC acknowledges there are different ways to do this. However, the transfer of data to HMRC, from the mandatory digital records to the filing of the return, must be entirely digital. HMRC has published VAT Notice 700/22: Making Tax Digital for VAT setting out requirements in more detail.

The VAT notice defines functional compatible software as a 'software programme or set of compatible software programmes which can connect to HMRC systems via an API' which must be capable of:

keeping records in digital form as specified by the MTDfV rules

preserving digital records in digital form for up to six years

creating a VAT return from the digital records held in compatible software and submitting this data to HMRC digitally

providing HMRC with VAT data on a voluntary basis

receiving information from HMRC via the API platform.

Records to be kept digitally are specified in the VAT Notice. They include 'designatory data'; the VAT account linking primary records and VAT return; and information about supplies made and received including the different rates of VAT applicable. For supplies received, the amount of input tax to be claimed is also needed.

MTD is not completely paper-free, and it does not mean businesses are mandated to use digital invoices and receipts. However the actual recording of supplies made and received must be digital. Where invoices and receipts aren't held digitally, they should be kept in hard copy as usual for VAT purposes.

Software issues

The digital records required for MTD don't have to be held in one place or one programme. Businesses can keep digital records in a range of different compatible digital formats. The use of spreadsheets is allowed, in combination with add-on MTD software.

From 1 April 2021, where digital records are kept in more than one programme, or where add-on programmes are used, all programmes should be linked digitally. VAT Notice 700/22 defines these digital links.

Digital links

A digital link is a transfer or exchange of digital data between software programmes, products or applications. Where a set of software products is used, there must be digital links between them, and once data is entered into software, any further transfer or modification must be via digital link.

Manual data transfer is not allowed under MTD. An example would be noting details from invoices in one ledger, then using that handwritten information to manually update another part of the functional compatible software. Copying by hand or manual transposition of data between two or more pieces of software and 'cut and paste', or 'copy and paste' is not acceptable.

The VAT Notice outlines acceptable digital links, including:

linked cells in spreadsheets

emailing a spreadsheet with digital records to an agent for the agent to import data into software to make a calculation, such as a partial exemption calculation

transferring digital records onto portable devices (pen drive, memory stick) and giving these to an agent

XML, CSV import and export, download and upload of files

automated data transfer

API transfer.

Transition: soft landing penalty period

For VAT return periods beginning between 1 April 2019 and 31 March 2020, penalties will not be charged if businesses don't have digital links between software programmes. This means 'cut and paste' will be acceptable while businesses update their systems. However, from 2020, HMRC will penalise non-compliance.

The transfer of VAT return data to bridging software to make submission to HMRC must always be digital, and is excluded from the soft landing provisions.

Exemptions

Under MTDfV, only a small handful of businesses are exempt. Please contact us if you believe your business may be exempt. Businesses will be able to make a right of appeal against a HMRC refusal of exemption.

7. VAT - seven key points for the smaller business

Seven key VAT areas to consider for the smaller business. If you are starting or have recently started a business in the Nottinghamshire area we, at Dakin & Co, can help you comply with the VAT regulations.

This factsheet focuses on VAT matters of relevance to the smaller business. A primary aim is to highlight common risk areas as a better understanding can contribute to a reduction of errors and help to minimise penalties. Another key ingredient in achieving that aim is good record keeping, otherwise there is an increased risk that the VAT return could be prepared on the basis of incomplete or incorrect information.

This aspect is not considered further here but useful guidance can be found on the GOV.UK website.

See our factsheet 'Making Tax Digital for VAT' on the mandatory digital record keeping and digital VAT returns.

VAT return and payment deadlines

For the businesses that complete quarterly or monthly returns, both the VAT return and any VAT payable are normally due to HMRC one month and seven days after the end of the VAT period.

Where the due date falls on a weekend or bank holiday the business should ensure that submission of the return and payment of any VAT due has reached HMRC no later than the last working day prior to the deadline.

Input tax

When VAT incurred on expenditure is recoverable in a VAT return it is termed 'input tax.' Only VAT registered businesses can reclaim VAT on purchases providing:

the expense is incurred for business purposes

the business is the recipient of the supply of goods or services

there is a valid VAT invoice for the purchase.

Only VAT registered businesses can issue valid VAT invoices. Hence VAT cannot be reclaimed on any goods or services purchased from a business that is not VAT registered. Proforma invoices should not be used as a basis for input tax recovery as this can accidentally lead to a duplicate VAT recovery claim.

Most types of supply on which VAT recovery is sought must be supported by a valid VAT invoice. This generally needs to be addressed to the trader claiming the input tax. A very limited list of supplies do not require a VAT invoice to be held to support a claim, providing the total expenditure for each taxable supply is £25 or less (VAT inclusive). The most practical examples of these are car park charges and certain toll charges.

The following common items however never attract VAT and so there is no VAT to be reclaimed - stamps, train, air and bus tickets, on street car parking meters and office grocery purchases like tea, coffee and milk.

Business purpose

This is often an area of contention between taxpayers and HMRC as VAT is not automatically recoverable simply because it has been incurred by a VAT registered person, or because the supplier has been paid by the business.

In assessing whether the use to which goods or services are put amounts to business use (for the purpose of establishing the right to deduct the VAT as input tax), consideration must be given as to whether the expenditure relates directly to the function and operation of the business or merely provides an incidental benefit to it.

Private and non-business use

In many businesses, personal and business finances can be closely linked and input tax may be claimed incorrectly on expenditure which is partly or wholly for private or non-business purposes.

Typical examples of risk areas where claims are likely to be made but which do not satisfy the ‘purpose of the business’ test include:

expenditure related to domestic accommodation where there is no business connection

pursuit of personal interests such as sporting and leisure oriented activities expenditure for the personal benefit of company directors/proprietors and expenditure in connection with non-business activities.

Where expenditure has a mixed business and private purpose, the related VAT should generally be apportioned and only the business element claimed. Special rules apply to adjust input tax claimed on assets and stock when goods initially intended for business use are then put to an alternative use.

Business entertainment

VAT is not reclaimable on most forms of business entertainment although VAT incurred on employee entertainment is recoverable. The definition of business entertainment is broadly interpreted to mean hospitality of any kind provided to someone who is not an employee, which can include the following example situations:

- travel expenses incurred by non employees but reimbursed by the business, such as self employed workers and consultants
- hospitality elements of trade shows and public relations events.

Business gifts

A VAT supply takes place whenever business goods change hands, so in theory any goods given away by a business will result in an amount of VAT due. The rule on business gifts is that no output tax will be due on gifts to the same person, provided that the VAT exclusive cost of the gifts to that person does not exceed £50 within any 12-month period.

Where the £50 limit is exceeded, VAT is due (output tax) on the full amount. There is a deemed supply of the goods for VAT purposes. Where this occurs HMRC will usually accept the business can disallow the VAT when buying the goods, which may be more convenient than having to calculate output tax every time a gift is given.

Routine commercial transactions which might be affected include such things as:

- long service awards
- Christmas gifts
- prizes or incentives for sales staff.

Cars and motoring expenses

Input tax errors often occur in relation to the purchase or lease of cars and with motoring expenses in general. Some key issues are:

- VAT on the purchase of a motor car is generally blocked from recovery because it is assumed there will be availability for private motoring and hence the vehicle is not exclusively for business use. This prohibition does not normally apply to commercial vehicles and vans, provided there is an element of business use.
- Where a car is leased rather than purchased, 50% of the VAT on the leasing charge is blocked from recovery for the same reason.
- Where a business supplies fuel or mileage allowances for cars, adjustments need to be made to ensure that only VAT on the business element of the expense is recovered. There are a number of different methods which can be used, so do get in touch if this is relevant to you.

Output tax issues

Bad debts

Selling goods or services on credit in the current economic climate may carry increased risk. Even where credit control procedures are strong there will inevitably be a risk of suffering bad debts. A supplier must normally account for output tax when the sale is made, even if the debt is never paid by the customer, so there is a risk of being doubly out of pocket.

VAT regulations do not permit the issue of a credit note to cancel output tax simply because the customer will not pay! Instead, where a customer does not pay, then provided the output tax has been accounted for by the supplier, a claim to recover the VAT as bad debt relief can be made six months after the due date for payment of the invoice.

The amount of the claim

The taxpayer can only claim relief for the output tax originally charged and paid over to HMRC, no matter whether the rate of VAT has subsequently changed. The claim is entered into box 4 of the VAT return - treating the uncollected VAT as an additional business expense - rather than by reducing output tax.

The customer

A customer is automatically required to repay to HMRC any input VAT claimed on a purchase where the supplier remains unpaid six months after the date of the supply (or the date on which payment is due if later). Mistakes in this area are so common that visiting HMRC officers have developed a programme enabling them to review Sage accounting packages and to list purchase ledger balances over six months old, making it easy to issue an assessment to disallow the VAT claimed.

Preventing the problem?

Smaller businesses (with annual turnover less than £1.35m) may be entitled to join the Cash Accounting Scheme, which means they will only have to account for VAT on sales when payment is actually received from the customer.

There is a clear cashflow benefit as well as built-in relief VAT from bad debts. The trade-off is that cash accounting only permits a business to recover VAT on expenditure at the time it makes payment to suppliers.