EMTACS NEWS

SPRING 2017

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***JUST BECAUSE YOU’RE PARANOID DOESN’T***

***MAKE YOU SELF-EMPLOYED***

I think I started doing these newsletters in Spring 1985 – partly because I was a frustrated writer with the equipment. As a kid I used to run a fanzine so this was just another excuse to communicate. I tied the newsletters in to Budgets even though it was a pretty rare year when the Budget produced anything which had much relevance to the life of a jobbing musician. It was more of an excuse to check in on your lives and for you to get some insight into ours. Now they’re taking away Spring Budgets but at least this one does have something.

This is the last Spring Budget according to Phillip Hammond, who tried to chortle his way through what was not a substantial set of changes for most people. As one commentator said, as a comedian, Hammond isn’t exactly Richard Pryor or Eddie Murphy. And the jokes are certainly a little flat when seen from the perspective of one section of the population, the 4.6 million people in this country who are self-employed.

Not many people were impressed by his plan to increase NI for the self-employed. As it was originally announced, Class 2 NI dies at the end of 2017/18. At the same time Class 4 was going to ramped up to 10% and then 11% as they tried to ‘harmonise’ the rates of NI with the 12% that employees pay. Cue howls of indignation from the self-employed, newspapers and crucially Tory back-benchers. Just because they could point to some small print in the manifesto that said they guaranteed not to increase employees’ National Insurance, wasn’t going to wash. And magically they’ve back-tracked and in fact the self-employed are going to see their NI go down because the scrapping of Class 2 NI is still going ahead.

The justification was that self-employed people used to pay lower NI because they got less out of the system than employees did, but now this is changing. In particular, state pensions for the self-employed will be on a higher level. But right now they have limited access to JSA and other benefits. It remains to be seen whether they slow down the rise in benefits availability. If the self-employed are not going to pay more then they may not get improved benefits. They don’t want a string of self-employed actors saying they’re out of work for a few weeks so please give me Job Seekers.

The other factor that enabled them to row back on the whole plan was the fact that the projected increase in tax take was a ‘mere’ £145M. Loose change in budgetary terms.

The cynics would say that they are just a bunch of penny pinchers who want to squeeze any small part of the tax system in order to pay for the £2Bn that they want to put into social care because that system is breaking down and bringing a whole load of extra costs and problems to the NHS.

On the dimmer horizon there is a further glow of a potential problem. You don’t know Matthew Taylor but you may come to hear from him in the next few months. He’s working on a report into Employment Practices in the Modern World. Specifically he’s looking at the discrepancies between how a piece of work is carried out and the various ways in which it is taxed and the rights and entitlements that go with it. Do a job as a self-employed driver and one kind of payment happens, do the job as an employee and a different kind of thing happens. But it’s the same taxi-ride. Matthew Taylor is groping towards a world where the tax, costs and benefits are the same. And I don’t think this means a reduction in tax. Report due out in the Summer.

# OR ALTERNATIVELY

The much bigger fund-raiser for the government was in the area where they hope to raise £900M by shrinking the amount of share dividends you can receive tax-free. A nimble way to keep tax/NI burdens down was to set up a limited company and for a few glorious years this brought a regime which could ensure that people were able to pay a lesser amount – it was legitimate tax avoidance if you like – but the way millions treated it was to exploit a loophole to pay £3,000 or so less in tax. This was done by taking a small salary out of a company and then taking the rest out in company dividends.

Sadly this window of opportunity began to close last time as the government revamped the way in which dividends are being taxed. A basic rate taxpayer began to pay 7.5% on their dividends which wasn’t much different to the National Insurance that was being avoided through the company. You had a chunk of £5K of dividends at 0%, but paid tax after that and for Higher Rate taxpayers the tax was even higher.

Now even the £5K is being shrunk to £2K and I have to say that although the tax upsides of running as a limited company are still there, they may well become less than the extra costs that come with being a company. This last change comes into effect from April 2018 and no sign of them adopting a U-turn on this front. We have time to study it but I think we may see some of you “dissolve your company” come then. Sadly this is a case of a loophole being closed rather than them jacking up tax in an evil manner.

***MORE LOOPHOLE CLOSING***

The other thing changing relates to the VAT Flat Rate scheme, which was intended to simplify things for people who didn’t feel temperamentally comfortable with the record-keeping necessary to keep the VAT-man happy. Instead of keeping a million little bits of paper, you agreed a fixed percentage as being appropriate to your trade and effectively reclaimed VAT based on that percentage.

For a lot of musicians and actors the percentage that they used was pretty generous and it meant that someone earning £80K and VAT-registered would charge £16K to their ‘employers’ and would only have to hand on £12K of that money to Customs and Excise. £4K stayed in their pocket. And indeed whoop!

All that is coming to an end and the announcements in the small print of the budget don’t alter their changes very much. Under the new regime most of our VAT-registered clients will be treated as what they call a Limited Cost Trader. The technical definition can be found in the best-selling VAT Notice 733 (sadly not available in Waterstones but you can find it online easily) but trust us, it’s likely that you are what’s known as a Limited Cost Trader.

This means that if you remain in the Flat Rate VAT scheme you will have a different scenario – you earn £80K, charge the Man £16K but have to hand over £15,840 for an overall profit of £160 and that is less than the costs and time of fiddling around with the scheme. So we can’t avoid the need for action – and we’ll be in touch individually with anyone whose VAT we deal with. But it’s fairly easy to know what to do for each category of person:

**Turnover less than £83K:** Deregister as soon as practicable



**Turnover above £83K:** Can’t de-register but should leave the FRV scheme and begin a process of keeping receipts and doing quarterly Returns ‘properly’.

Those clients who are handling their own FRV Returns should do the same and if the prospect of doing your own VAT Returns properly is just too much to contemplate then we’d be happy to have a chat about doing them for you.

# NEW REGIME FOR TRAVEL COSTS

You may recall from our last newsletter that our default claim for regular and predictable travel will revert to zero. As we have not heard anything to alter this opinion, this will be the case for all accounts forming the basis of the 2016/17 tax return. Travel to all other freelance jobs will continue to be claimable.

# MAKING TAX DIGITAL – PUTTING OFF THE EVIL DAY

At last some good news. Making Tax Digital is the process by which the Revenue want to get information from ‘businesses’ (that almost certainly includes you) on a quarterly basis rather than an annual one. It’s supposed to make the wheels turn more smoothly but is a real pain for those who follow the path that bookkeeping is something to be done in horror and revulsion in mid-January, in the delusion that we might have time to polish things off at a late stage. It’s not supposed to be a money-making tool for the Revenue but is supposed to increase their income by £410M/year. Hmmm.

Anyway, the good news is that the introduction of this is being partially delayed – it was coming into effect from April 2018 but following teething troubles they are going to put it back for a year to April 2019 but only for those whose turnover is below the VAT threshold of £83K. It will also come in for our companies (if any are still going!) from April 2020. If your business is below a certain line you’ll be allowed to carry on doing it once a year. At the moment that line is set at £10K pa but this may be increasing (we’re waiting on the fine detail to be published sometime soon). How this quarterly reporting will take place we really don’t yet know (they haven’t been specific) but the theory is that this information will replace VAT Returns as well.

So imagine it’s April 2018 for a VAT-registered business. They have to file a Return of sorts for April/May/June by early-August and pay the VAT. They’re also providing info towards their Tax Return but the Revenue do nothing with it. The next three quarters (q/e Sept 2018, Dec 2018 and March 2019) tick by in the same fashion. You then have to file a fifth Return for the year up to ten months after the end of the year in the same way you do now. This draws the four quarters together and provides year-end accounts.

This is all a ridiculous burden for the self-employed especially those who have never, nor will ever, think of themselves as businesses. Once upon a time the irksome tasks that went with being self-employed were balanced by some of the favourable ways in which the tax/NI/VAT system treated the self-employed, but it seems that they are hell-bent on making things harder for the self-employed whilst heaping unnecessary extra bureaucracy onto them.

I’m a fatalist and I don’t think that getting the government to change track on things is likely to succeed. But their willingness to listen about the planned changes to self-employed NI proved that people-power backed by MP-power can actually produce a bit of good sense. They just may be amenable to pressure from back-bencher Tory MPs who are, by nature of their dodderiness, less computerate and perhaps they can convince the Revenue that whilst this system is unpleasant it has value for higher-turnover businesses but is daft for the small fry. If you feel so inclined, your MP has an online presence (get more at [www.parliament.uk](http://www.parliament.uk)), send them an email explaining how they’re damaging people trying to make an honest living and that putting more bureaucratic burdens on them is futile. Can they do their best to press HMRC to relieve businesses below the VATable threshold of this unnecessary burden.

# THIS YEAR’S SCORECARD

This is the first year in which the old gang have been handling the mountain which is the January Returns deadline all on their own. To be honest one of the biggest elements of my retirement from day-to-day involvement in the company is that I was stressed by the pressures and workload which January used to bring but temperamentally unable to just take it easier and at a lower key.

So this year I’m delighted to say that they did a fine job of chivvying, badgering and harassing people and that we got all of the jobs done where people had all the raw material to us in reasonable time and even a great many of those who got the stuff to us at an unreasonable time. They may not have done quite so well in percentage terms, but if it means that they got to go home before midnight in January then that’s good.

What seems to have happened this year is that people responded to our deadlines and our guarantee dates really well – so the poor postman needed a metaphorical van delivery all for us on a couple of days and we could really use a slightly smoother regime. It’s not rocket science people – the world turns better if everyone sends us raw material in reasonable time – it makes your world better in terms of knowing forthcoming tax liabilities so that you can budget for them or avoid having to pay more tax than you need and then claim it back.

To try to smooth this out, we will probably set the deadlines back a little so that we need to have the stuff by 6-7 months after the year-end (generally the end of October). And stuff that arrives after November will continue to attract the overtime premium in terms of bills. We are going to try to widen the range of bills that we charge so as to reward those who have pretty books in good order and to justly charge those whose records are a total mess. I was always a bit rubbish at achieving this and I wish the boys and girls well in this.

***WICKED LANDLORD SECTION***

No new unpleasant measures have been announced to make renting out houses yet more unpleasant. However I should emphasise that the changes to claiming for loan interest are still some distance away from hitting home. For those who rent out property, the slow reduction of interest claims for those who are Higher Rate taxpayers is not due to begin until April 2017. That means reductions begin in the 2017/18 Tax Return and start to increase tax bills by a tad in January 2019. And then by two tads in Jan 2020 – not a huge kick in the shins and certainly not on a par with the 3% extra Stamp Duty which is already hitting home.

***COMPANY CORNER***

Running via a Limited Company can be somewhat confusing but one of the concepts we try to explain to our band of Company Directors relates to the Director’s Loan Account. This is a kind of see-saw, which shows the amount that the company owes to the director or that the director owes back to the company. When your finances are too intertwined this can seem to be a bit of a technicality but it’s not. You aren’t supposed to borrow money from the company otherwise you could just use it as a means of getting money out and not paying tax on it.

They don’t mind a few quid here or there but if it’s more than that then the Revenue see you as potentially sneaking money out of the company without paying tax on it – so they charge the company 32.5% tax on the outstanding balance. You can have this back but only once the loan has been repaid. And if the amount involved exceeds £10,000 then they also charge the individual as if they’d had an interest-free loan from their employer.

You can’t just treat company money as an extension of your own. We have started to see people who choose to do this and borrow the money to buy flats and houses, with the thought that the company then just owns a bit of a house or whatever. It’s just not like that so be careful when you try this sort of thing on.

***Black Arts*** Another thing to mention is that forthcoming sets of company accounts may look a little different from before. There are a set of rules called Financial Reporting Standards which govern what, where and how things are to be included in the numbers that are published for the company on Companies House website or similar places. One of the latest of these is the riveting FRS102, which makes company accounts look a little different. But it doesn’t really make any massive changes to the two things that clients actually care about, namely the profit and loss account and (for some) the balance sheet. Again, those who have a keen interest in these matters can Google the details online.

***ACCOUNTS NEED STATEMENTS***

Most of you are good enough to let us have supporting paperwork and bank statements for the year’s figures that we are about to work on. We do try to underline that these are a simple requirement for us to be confident in giving your figures to the Inland Revenue. We just thought you might be curious to know why we’ve become a little hotter on this in recent times. Well it comes from the fact that for a lot of you it’s quite possible for you to receive money of which you’re blissfully unaware, especially from repeat fees from a piece of work done ages ago.

Money pops up in people’s accounts from the likes of BECTU, PRS and PPL and maybe the hardcopy goes to the address at which you lived five years ago when you did the work – if a hardcopy is even generated. We’ve now had a trio of cases where a belated check of bank statements has thrown this up and we’re just pleased that it’s us that have been catching these things and not the Revenue, who are a lot less forgiving. So – sorry for the insistence, but it’s in your own best interests.

***ANNUAL COLOURED FORM***

We rely on the data from the Coloured Form to enable us to prepare your Tax Return and especially to determine things such as whether or not you have a Student Loan or whether you’re getting Child Benefit and have to give some or all of it back. Some of you are not very good at returning the Form but if we don’t have it, we can’t be sure that everything has been included. If HMRC have information that hasn’t been included on your Tax Return, it gives them the opportunity to look into the rest of the Return. Don’t leave it until you finally get around to doing your accounts – you probably won’t be able to find the thing by then and won’t be able to remember everything that should go on it!

***MARRIAGE ALLOWANCE***

The Marriage Allowance is a little known thing, which we like to keep reminding you about. It applies to a married couple or civil partnership where one half is working and the other half isn’t (or not a great deal) and involves transferring 10% of the Personal Allowance from one to the other and getting a 20% tax saving on that amount. Better than the proverbial poke with a sharp stick. Once you have this allowance you carry on getting it until you let the Revenue know things have changed.

***INTEREST NOW TAX-FREE?***

From 6th April 2016 bank interest is now tax free up to £1,000 (£500 for those of you in the higher rate band). Although the majority of you will be nowhere near this level of interest we will still be asking for details on our coloured form to satisfy the requirement of knowing all tax return details. Please continue to fill this section in as usual.

***MATERNITY PAY – BACK TO WORK DAYS***

We have recently had a few expectant mothers and the ins and outs of Maternity Allowance have had to be explained. Although the amounts received do not quite match those receiving Statutory Maternity Pay, the rules in relation to working whilst in receipt of the allowance do. This states you are able to work a total of 10 days (a 1 hour job will still count as a whole day) and still receive the allowance. As soon as you go over and above 10, you need to inform the Revenue and the allowance will stop. It is always best to come clean about this before the Revenue pick up on it.

***SCAM REBATES***

We continue to hear from clients with emails that they’ve received from HMRC, which ask them to update security info, provide bank details, passwords, anything – all on the basis that they’re going to get a rebate, pay a demand or generally co-operate with the Inland Revenue. The obvious ones are when a fake rebate is being offered. To emphasise what the Revenue have said about this, they will NEVER contact taxpayers by email or text, never ask for information in this fashion and if you get anything like this it’s a fraud and they’d like to hear about it on phishing@hmrc.gsi.gov.uk. Just forward the email to them and go back to sleep.

***EMTACS***

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**STANDING ORDER MANDATE**

Please pay £ to account name EMTACS, account number 69087695 at Co-Op Business Direct (Kings Valley, Yew Street, Stockport, Cheshire, SK4 2JU), sort code 08-92-99, on and on the 10th day of each month thereafter, until further notice. Please cancel any previous Standing Orders to EMTACS.

Signed .................................................. Date .........................................

Bank Name: ....................................................................

Address: ....................................................................

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Account name and number: .....................................................................

Sort Code: .....................................................................

This newsletter is for guidance only and no actions should be taken on information in it without first consulting with us.

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