EMTACS NEWS

SPRING 2018



If that’s what April showers brings forth, what on earth can we expect April snow to bring? Here goes with writing a little nonsense for my old colleagues and to try to make sense of the incomprehensible.

# MAKING TAX DIGITAL

This is an ongoing saga as the Revenue want every little business to be keeping them abreast of every little turn and twist of their activities on a quarterly basis.  The theory is that when you come to the end of the year you will be able to just add up the first four quarters of your year, tweak a few bits and do a few annual bits and pieces and just squawk it down the line so that people have their taxes done nice and early and we can all get a good night’s sleep, without having to burn any midnight oil.

The theory remains sensible, but the execution leaves a little to be desired.  It imposes fresh burdens on all businesses. Those burdens fall quite lightly on a business that has computerised accounting software, which spits out figures at the push of a button.  For those who do their figures in hindsight at the end of the year armed only with a plastic bag of receipts and what few bank statements can be scraped together, it’s a catastrophe.

So the good news is that the timescale for the whole scheme is being made a lot gentler than was originally envisaged.  Come April 2019 all businesses with turnover over £85,000 will have to file at least VAT data digitally. They can also start to file details of other things (turnover, categorised expenses, profits and losses) alongside this and so be giving the Revenue the ammunition to help them to complete your Tax Return for you.

The whole process is being trialled right now and a somewhat wider trial is going to be put in place for some people around about now for the 2018/19 tax year. It is voluntary and initially only VAT data will be required under the MTD system until such time as the Revenue are satisfied it’s running smoothly (pause for hysterical laughter at this point) and not before April 2020 at the earliest.

However, one thing has to be recognised.  When the Revenue say that data for VAT has to be filed electronically this does not mean it can be knocked up on an Excel spreadsheet and the totals filed online.  There is a requirement on VAT-registered businesses to have software, which automatically talks to HMRC’s computer. We will be looking at acquiring the right software to achieve this for clients, so that we still input from people’s collections of payslips and such like for VAT purposes and then click the button to auto-file.  Those of you doing your own VAT will have to buy software that achieves all this and we may end up commending a few products. But since HMRC are still talking to the various software providers about how their system will work, we’re all working in the dark here.

# SHUTTING DOWN LIMITED COMPANIES

As mentioned last time, the tax advantages of operating as a Limited Company have shrunk markedly in the last year or so.  Although Corporation Tax rates have gone down, the tax on dividends has effectively gone up and no longer are there a few thousand to be gained out of the company system.  At best the savings would appear to be in the region of £1,000-£2,000 and when you take into consideration complications such as accounts being in a format that many clients find incomprehensible, having to ensure that there are sufficient after tax profits in the company to cover dividend payments, problems caused by having overdrawn Director’s Loan Accounts and the extra time and cost from our end, for some it just won’t be worth the candle.

Certainly for anyone whose profits are below £50K, you need to seriously consider what’s known as disincorporation.  This is an individual call according to individual circumstances and we’ll be trying to have a chat with all company directors about it.  There can be some opportunities for tax planning here as well and if there’s an extra chunk to be screwed out of the system, we’ll be getting on to it.  So expect Alan, Sally or Liz to be in touch about the possibilities here.

The other matter that has arisen is that clients who are operating as Limited Companies do not have any ‘back-up’ from the Musicians’ Union should they come into some kind of conflict with either employers or those working for them, since the company is not (and cannot be) a member of the MU.  This does seem a little bit daft and I know there are those out there who don’t set much store by the presence of MU back-up but if it is important to you then you might want to consider insuring yourself by a Public Liability Policy, which comes with legal support as an add-on.

# MORE EXPENSIVE BUREAUCRACY – BUT ONLY FOR A FEW!

For those who are one-man band companies employing themselves as solo company directors, you can avoid the requirements to have a workplace pension scheme.  But for those who do have employees above and beyond those who are company directors, there is an increase in the amount that even a smaller employer has to pay on behalf of their employees into a workplace pension scheme.  From the start of this tax year, employers have to put in 2% and employees 2.4% (the government top this up to 3%). But I’m sure those of you who do have this requirement will have already heard from their pension scheme provider.

# BUT EVERYONE NEEDS TO READ ABOUT THIS BUREAUCRACY!!

The other bit of bureaucracy, which leaves us bashing our heads against the nearest wall is GDPR, about which you’ll be hearing a lot more in the coming weeks.  This stands for General Data Protection Regulation. Basically in the past we have been permitted to pass financial data, Accounts, Tax Returns backwards and forwards over the internet as emailed attachments and this has never been a problem.  However regulators see this as insecure and in future we must send data in a format that is encrypted, or we have to park it in an electronic mailbox, which only you have the means of accessing.

The heart sinks at this point.  Another password, another opportunity to struggle with accessing data that is yours in the first place. The ability to send data back and forth electronically will still be possible but faffing around with nanny state regulation is going to do nothing but add layers of difficulty, time and expense for all concerned. Sadly however, it is something everyone has to comply with.

Therefore, welcome to the world of “client portals”. In the coming month or so, all those of you who return the attached slip indicating your preference for a portal, will receive a communication from us containing your username and password, which will be needed for access. The portals will be used to transfer documents or material that contains any personal information. This method of data transfer will allow SA302s and Accountants Certificates to be received electronically, if and when required. If used correctly, it could also be a very useful tool when the dreaded Making Tax Digital rears its ugly head.

The other option is to use the slower method of the postal service. Although probably no more secure than an email, they cannot remove this method of data transfer and so we can continue to send out Accounts, Tax Returns in the post. The down side to this is that if we are tight up to a deadline, the time this will take may mean that deadline is missed.

The up side is you will receive a hard copy (we know this is less important to a lot of you these days) but this is still possible with the portal option, by downloading and printing.

The new Data Protection Act, GDPR, also requires us to inform you of what we do with your personal information. The data is only viewed by members of our team and is used to create your Accounts, Tax Return, Tax Calculation, VAT Returns and Annual Returns, which are then filed with the Revenue and/or Companies House. Your information is never transferred or sold to third parties. Sending anything on to other places such as to Lenders or Brokers is only done with your prior approval.

**As mentioned above a separate slip is included, which we require back from you, indicating your preferred method and confirming your up to date email address.**

# HARVESTING THE MATERIAL

As ever, we make the traditional plea to let us have your raw material in the warmer months of the year and in something like coherent form.  When we end up getting stuff that is messy and late, it inevitably means us having to spend more time and charging you more money, which we hate doing.  But it doesn’t seem fair to load the costs of those with a plastic bag of screwed up receipts on to those who do make an effort. We’ll be trying to reward those who are pillars of the community in this respect.

But for those circs where we do get what we’ll politely describe as a bag of crap, then we’ll be endeavouring to give you the option of us dealing with the material on the basis of how long it will take us to sift through and turn what we’ve been given into the basis for preparing accounts and what the cost of that time is going to be.  This approach at least puts the ball back into the court of those who don’t feel able or inclined to do the sort-out themselves. We don’t have an issue getting our hands dirty but it does seem sensible for us to give the anti-bookkeepers the choice of doing the clear-up themselves.

For those who send us digital material, we do ask that it comes to us as Excel, csv or Open Office format.  We can convert a lot of material but it can be time-consuming and unreliable. For those Apple people out there, this means saving a Numbers sheet as an Excel spreadsheet and trying to avoid strange bits of punctuation in the file names. Putting a \ or a / into a filename causes all sorts of chaos, for reasons hell knows why!

Lastly on the bookkeeping front, there is the ongoing dilemma of bank statements and supporting paperwork.  I know that we have only recently been assiduous about the need to get to see bank statements but it is a very necessary tool for us to be preparing accounts.  Since we brought this requirement in we have been able to find many instances where income had been omitted from all other records and not through clients trying to keep it under the carpet.  What happens, especially with royalties and repeat fees, is that money just materialises in the bank account and the paperwork is sent to the address that was relevant 10 years ago when a recording was made.

When I consider how lazy I am in looking at my own bank statements, it’s no great surprise that things slip through the net. If the Revenue find we have prepared figures without such a basic thing as looking at a client’s bank statements, they would question whether we are actually preparing accounts properly.  I know this has caused grief with a number of clients and if it is the case that people want to retain some confidentiality for their own personal expenditure, the way to do this is to actually separate their business bank account from their personal one. It isn’t as if a business account has to be formally declared as one with the bank, it just needs to have all business income flowing through it without exception.

So we need to see bank statements, Agency statements, payslips, remittance advices, invoices and receipts to back up your spread-sheeted/written records. I hope you can understand that we aren’t being pernickety about this – just trying to act in clients’ best interests and to comply with the Money Laundering regulations.

# NEW STAFF

Some of you may have had the pleasure of dealing with Anna who arrived in the Autumn and was invaluable in dealing with the December/January rush.  She’s now settled in and is proving to be a hugely efficient and busy member of the team.

Selina dates back a little further and she’s working with Jane to try to keep the office from descending into utter chaos.  You might already have grown used to Selina’s friendly voice answering the phone, so don’t be surprised if you don’t get Jane!

# THE LANDLORD’S BURDEN

It seems that every year there is yet another change that impacts on landlords unfavourably and this year will be the first year in which we have to prepare rental statements for clients, which have the beginnings of restrictions on loan/mortgage interest for those who are higher rate taxpayers.  There is a sort of myth going the rounds that the government is putting a stop to all tax relief on interest but this isn’t so. All that happens is that effectively instead of getting 40% tax relief on the interest that they pay, Higher Rate landlords will only get 35% relief on their interest (and then 30%).  It’s a bit more confusing than that but that is the overall effect.

Another slight kick in the shins is a further change in the restrictions on buy-to-let mortgages.  Previously you had to have rental income of 125% of the amount you were paying on interest. So if you were paying out £1,000/month in interest, you had to be able to show rental income of £15,000pa.  As of 5 April 2018 this rule becomes 145% and so you would need to show rental income of £17,400. It won’t affect existing mortgages but if you have a fixed-term loan on a purchase, then it could prove problematic when it came round to replacing that loan.

# BUDGET DAY?  WHAT’S THAT?

Once upon a time when the Chancellor stood up on a particular Tuesday in March, there were all sorts of revelations about what the tax rates and the personal allowances were to be in the coming year.  Now everything is announced six months ahead so that when Phillip Hammond stood up the other day, all he had were a couple of poor jokes, with a delivery worse than Les Dawson. He did say that basically things were on the up.  All very well for you to say, mate. You get a free house.

So the tax allowance changes, which came into effect on 5 April 2018 for the new tax year, were all announced in the Autumn based on an old election promise.  Back in the sunlit uplands of pre-Brexit 2015, George Osborne (remember him?), laid down a plan by which the tax-free allowance would reach £12,500 by 2020 with Higher Rates of tax cutting in when you got up as far as income of £50,000.  All nice round numbers but for now it's reached £11,850. You can earn £34,500 at basic rates, meaning that it takes income of over £46K to become a Higher Rate taxpayer.

Corporation Tax is on the way down as a sop for those whose dividends from their small company are on the way up. We’re just completing the first of 3 years where the rate is 19%. From 1 April 2020 the rate goes down to 17%. You can see why it’s not quite so easy to simply say that scrapping a limited company is the best way to go. These rates apply not just to small companies but also to big companies (unless you’re Apple, Google or Amazon, in which case you arrange for all your profits to happen somewhere else). In a post-Brexit world there are hints that the Corporation Tax rate may fall a lot further to encourage businesses to stick around and not relocate to Dusseldorf.

They usually index-link the threshold for registering for VAT each 5 April but they have announced that not only is it not rising this April but that it will stay at £85,000 until April 2020.  The uglier thing you should be on the lookout for is that because this is the highest VAT limit in the EU, the Office of Tax Simplification recognises the distortions (the limit) causes and recommends the government ‘should examine the current approach to the level and design of the VAT registration threshold, with a view to seeking out a future direction of travel.’ The government intends to act on this recommendation by consulting on the design of the threshold.

Elsewhere, there are suggestions that the Office of Tax Simplification is trying to halve the limit, so as to bring a further 600,000 businesses into the net.  Their argument is that it distorts the market by making businesses artificially stay below the threshold and causes friction where registered businesses compete with non-registered ones.  The fact that they would get their hands on a whole load of extra VAT never enters their pretty little heads.

Of course how this will be affected by Brexit is another matter entirely.  I can't see us going back to Sales Tax though - VAT is here to stay because it's a very hard tax to avoid and HMRC don't have to do much work to collect it - we act as their unpaid collectors.

***NI COCK-UP AGAIN***

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A lot of clients are having the Class 2 NI due removed from their tax calculations and so it is not being paid.  Down to two reasons; never being registered as self-employed, or due to cancelling their Class 2 direct debit before the change to year end collection.  This is a Revenue and Contributions Agency mix up and so we have sent off a letter outlining our issue/complaint regarding this and asking the Revenue to check that clients who should be registered as self-employed are so.

We'd like to think that this will wither on the vine as self-employed NI ceases to be a thing, but if you find the Revenue randomly returning around £150 to you for no apparent reason, this is almost certainly what will have happened.  Just let us know and we'll get them to update their records. Sadly - don't bank the cheque!

# COMPANY DIRECTORS

Every year the tax and NI thresholds rise and this enables you to increase the money that goes from a company to its director(s). If you are the organised type of company director who does this tidily with a standing order from their company bank account to their personal account then please amend this to £700/month. Those of you who aren’t, please ensure the correct amount is transferred each month. For those whose payroll we administer we’ll be altering the figures in your official payroll.

# STANDING ORDERS & BANKING

We are about to undertake the ugly task of changing our bank – Co-Op no longer being quite so ethical as it once was, since it got taken over by hedge funds a few years back. With a heavy groan this will mean changing the account and sort-code to which standing orders are pointed. We’ll be in touch about this when we complete the exercise of seeing where you’re all up to with the standing order payments.

I know that we’ll still be getting money into the old Co-Op account for decades to come as people repeat the destination to which they sent money last year or never quite get round to changing their standing order.

But this may take a little while so if in the meantime, you are interested in smoothing out your future bills and wanted to set up a standing order, then a standing order form is included on the back of this newsletter. If this is of interest, please complete this sheet and let us have it back and we’ll do the rest. Alternatively, you can set up your own standing order online using the account information on there. Please do however let us know you have done so.

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*Entertainers and Musicians Taxation & Accountancy Services*

***69 Loughborough Road, West Bridgford, Nottingham NG2 7LA***

*Phone 0115-981-5001 Fax 0115-981-5005*

**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.

***EMTACS, 69 Loughborough Rd, West Bridgford, NOTTINGHAM, NG2 7LA***

***Phone 0115-981-5001 Fax 0115-981-5005***

***Website:*** [***www.emtacs.co.uk***](http://www.emtacs.co.uk) ***Email: mail@emtacs.co.uk***