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Cash flow advantage for the self employed

Cash flow is king during this difficult time and this will no doubt be the case going forward for possibly the next year or so, until businesses get themselves back on their feet.

For the self-employed, on the income tax/national insurance front, the Government have tried to help by agreeing to defer the taxpayer's 2019/20 second payment on account, due on 31st July 2020, to 31st January 2021, if individuals want to do so. This is, of course, the date when the taxpayer will also have to pay any balancing tax and national insurance payment in respect of the 2019/20 tax year plus their first payment on account in respect of the 2020/21 tax year. **Is it possible, though, to improve the taxpayer's cash flow position even further? Potentially yes**, by playing around with the accounting date.

For example. Joseph is a self-employed hairdresser. It is his only income. His accounting year end is historically 31st March.

For the 2018/19 tax year his taxable profits were £24,000.
For the 2019/20 tax year, if we kept his accounts year the same, his taxable profits would be £30,000.
No trading income earned from 1st April 2020 to 30th September, except for a government grant of £5,000.

If Joseph can extend his accounts to 30th September 2020, his taxable profit for the 2019/20 tax year drops to £23,666 from £30,000. His 2019/20 tax and class 4 national insurance liability falls from £5,423 to £3,586 (from £5,453 to £3,565 in Scotland), a cash flow advantage of £1,837 (£1,888 in Scotland).

An added advantage to Joe is that his 2020/21 tax year upfront payments, which are due on 31st January 2021 and 31st July 2021 can be reduced as he now knows his taxable profit for the 2020/21 tax year will £23,333. Those tax payments would be reduced in total by £175 (£174 in Scotland).

Looking further ahead to the 2021/22 tax year, even if the trade, hopefully, picks up for Joseph from 1st October 2020 onwards, he will only be paying the additional tax and national insurance on that increased profit on 31st January 2023.

Top tip:

If your accounts year end is not 31st March or 5th April then you may have what is technically known in the accountancy profession as overlap relief, which was 'created' usually when you first commenced self-employment or when you changed your accounting date previously. Again, **it may be feasible and worthwhile to adjust your accounting date again to bring this overlap relief into play**, as that could mitigate your tax and national insurance liability.

Please let us know if you would like us to review either of these options.

Coronavirus – a stark wake-up call

The coronavirus pandemic has affected us all, not just here in the UK, but globally. There is an argument to say that it has taken a crisis like this to bring us back together, to recreate that community spirit and to remind us of the importance of our nearest and dearest, our families.

It has also sadly and, in some cases, tragically, acted as a stark wake-up call, that we are not immortal. This should act as a trigger point to put our Estate in order. We should all ask ourselves

- Have we done a Will?
- If so when?
- Have the circumstances changed since we put that Will away in a drawer, say, 15 years ago? If so, should we review it? From a tax perspective, legislation in this area is constantly changing.
- Do we have Powers of Attorney in place in case we fall sick and are unable to deal with our affairs? It can be hard enough, from a pure emotional point of view, for the loved ones to deal with our debilitating illness let alone, at the same time, the expense and the time in tackling the authoritarian red tape in handling our affairs the way we would like them to do.
- It is a natural desire, on all our parts, to want to leave our family in a financially secure position upon us passing away. Do we know, truly, what our financial position is (the value of our Estate)?
- Do we know how much of that Estate will go over to the tax man? Are we comfortable with that?
- If not, can we legally mitigate that tax burden?
- Do we know how we want the Estate to be divided up?
- Does our Will (assuming we have got one) align itself to our wishes?

There may be some positives to come out of this very dire, sombre coronavirus situation. It is to be hoped that one of them is facing our own mortality no longer remains an awkward taboo subject.

Top tip:

If you have an established property investment company then there is an IHT solution which can immediately get the value of the shares out of your Estate for inheritance tax purposes whilst enabling you to continue to control the company and the income stream derived from it. Please give us a call if you wish to discuss this or any aspect surrounding your Estate and inheritance tax planning.

VAT – Hardship solutions

If you are a VAT registered business the Government announced a while ago a VAT holiday for VAT due between 20th March and 30th June 2020, deferred until 31st March 2021.

Dependent your circumstances there are a whole raft of things you could consider which may improve your cash flow situation. Here are just a few suggestions:

Consider de-registering for VAT if your expected sales over the next 12 months will be less than £83,000. Care needs to be taken before doing so, as there maybe issues to consider surrounding assets and stock owned on the final day of being VAT registered, plus the VAT consequences where businesses had opted to tax on a property purchase or are within the Capital Goods Scheme.

If you don't already do so, consider paying VAT by direct debit. This can provide an additional 3 working days payment leeway (5 days if it straddles a weekend).

To help with cash flow is it feasible to change the VAT tax point by issuing pro-forma invoices or payment requests? You could then raise the VAT invoice at the time you have received the payment from the customer, thereby delaying the point at which you pay the VAT input tax over to HMRC until at least that time. The cash accounting scheme operates broadly on the same premise.

If you are incurring more VAT input tax on expenditure than VAT output tax on sales, you might find that you are in a repayment situation. Is it worth, from a cash flow perspective, switching from completing quarterly VAT return submissions to a monthly one?

Sadly, you may find that some invoices you are waiting to receive payment for may never materialise. You, however, may have already paid over the VAT input tax to HMRC. Is it, therefore, worth carrying out a full review of your debt ledger to see if the VAT Bad Debt relief provisions are an option?

Remember, if as a business, you lease a vehicle which will be available for private use, you can claim back 50% of the VAT input tax, whereas, if you purchase a vehicle outright, you can't.

If you are thinking of paying your suppliers on time to keep the supplies coming in and that impacts upon your ability to meet your quarterly VAT payment, then consider entering into a time to pay arrangement with HMRC, but do so before the VAT due date as that will avoid a potential default surcharge being levied.

Top tip:

These are just some ideas which may or may not be appropriate for you and your business. If you would like us to carry out a VAT review to see if any of these suggestions are suitable and to look at others such as the wide range of VAT schemes then please do not hesitate to contact us.

Dealing with a deceased's estate

If you are a Personal Representative (PR) sorting out a deceased's estate, there is the matter not only of tidying up their tax affairs to the date of death but also dealing with the administration period. This is the time from the date of death up until the estate is finalised and the net assets are passed out to the beneficiaries in line with the terms of the will or the laws of intestacy.

It is worth noting that if the deceased made a capital loss on a sale of an asset in the tax year in which they passed away, it may be possible, to carry that loss back up to 3 tax years and set it against a capital gain which arose then. This could trigger off a tax repayment for the estate.

There may be income received and capital gains disposals made during the administration period. **The PRs are not entitled to set any personal allowances against that income**. Also, the dividend allowance and personal savings allowance potentially available to individuals to mitigate their income tax liabilities are sadly not there for the PRs.

Dependent upon the type of income received during the administration period, **the estate is taxed at 7.5% on dividend income and 20% as regards savings and rental income**. When that income is paid out to the beneficiaries, they may be entitled to either a tax refund or be liable to pay tax at the higher tax rate dependent upon their individual circumstances. Depending upon the level and type of income received by the estate, **there may be a requirement, in most cases, to complete a Trust and Estate Tax Return**, for each tax year up to the point the administration period ceases.

During the administration period, any assets disposed of by the PR could be liable to capital gains tax, except for those transferred out to beneficiaries. One reason for the PR to dispose of an asset such as shares or property, might be to enable them to pay off some estate debts. **For the tax year of death and the following two tax years the PR would be entitled to set off the capital gains tax (CGT) annual exemption (presently £12,300) against any gain that arises.** The gain is broadly calculated as sale proceeds less the probate value. The gain in excess of that annual exemption could be taxed at 28% for residential property and 20% in respect of other chargeable assets such as shares.

Top tip:

If, as a PR, you are thinking of disposing of an asset pregnant with gain, consider if it is feasible to transfer the asset out to the beneficiary/beneficiaries who collectively might benefit from more than one CGT annual exemption or be taxed on the gain at a lower rate than the estate or perhaps may have capital losses which can be set off against the gain.

Please do not hesitate to contact us if you would like help with dealing with the administration period or the period to the date of death.

Quick-fire points

No doubt there are many people and businesses who will be struggling financially at the moment. Here are just a few quick-fire points which might help to alleviate the financial burden.

1. **Consider extending the company year-end.** Where profits are falling or losses are arising, it brings them into play earlier from a corporation tax perspective and may help with cash flow.

2. If the monthly PAYE and NIC payments are less than £1,500 then **is it worth considering a change to quarterly payments to improve the cash flow?**

3. If, as a business, you have already incurred significant capital expenditure over the past few years pre Covid-19, **is it not worthwhile carrying out a capital allowances review** to ensure that the maximum tax relief which can be claimed has been? This could mitigate tax bills going forward and/or create tax refunds.

4. Are you a limited company who has incurred expenditure over the past couple of year's pre Covid-19 in creating or modifying products, processes or services? In that case, **is it not worthwhile checking to see if you are eligible for the 230% Research & Development tax relief** which could result in a tax refund and/or mitigate this year's corporation tax bill?

5. **Have you legally maximised the use of the various Government** backed loan schemes, the VAT and Income Tax deferral arrangements, local authority grants, the Employee Job Retention Scheme or the Self-employer Income Support Scheme?

6. **Do you run your own payroll scheme? Is it economically efficient to do so?**

7. Have you carried out a business cash flow forecast and are you intending to review it on a regular basis, making adjustments as and when required?

8. **Have any aspects of lockdown caused you to adapt your way of working for the better** which could result in savings going forward? For example, do you need the premises you presently lease?

9. The government have announced that the penalty for withdrawing capital out of a lifetime ISA (LISA) for reasons other than purchasing your first property, retirement or terminal illness, has been reduced from 25% to 20% for the period 6th March 2020 to 5th April 2021. This means only the Government bonus is taken from the saver.

10. Whilst on furlough or on unpaid leave, for working tax credit purposes, HMRC will still regard any claimant as working their normal hours.

11. Where a family related statutory pay period starts on or after 25th April 2020 and an eligible employee has been furloughed, the average weekly earnings (AWE) calculation rules have changed. **From that date onwards the AWE is worked out on the normal pay not the 80% furlough figure.**

12. **If you have not already done so, if you have children, is it worth claiming child benefit?** The claim can be backdated only 3 months.

13. If you have spare cash, is this the time to invest in assets such as shares or property either directly or through a pension scheme, as values might be low due to Covid-19? Make sure you obtain qualified investment advice before doing so.

Top tip:

If you would like to discuss any of these particular points to see if they are appropriate for you, then please do not hesitate to contact us.

We are here to help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

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