

Flynn's Thoughts

Child benefit

Is this the time to revisit or remind clients and prospects alike to claim child benefit?

There may be some clients who have not historically registered to claim child benefit because either they or their partner's income was in excess of £50,000 a year and it would result in the high income child benefit tax charge on the higher earner if such a claim was made.

The child benefit, is at present, £20.70 per week for the first child and £13.70 for each subsequent child. This increases to £21.05 and £13.95 respectively from 6 April 2020.

The claim can be backdated only 3 months. Where clients are furloughed with a 20% drop in their income, or laid off or are self-employed with their income stream cut off or diminished, is it not worth advising them to **make a claim**.

For those who are self-employed it can usually be too late, as the accounts are completed possibly many months down the line when a claim could and should have been acted upon. For those self-employed with average trading income over £50,000 this missed opportunity is made doubly worse by the fact that they will not be getting anything from the Coronavirus Self-employed scheme. The additional benefit is that where the person, who makes claim, income is below the NI limits they obtain national insurance credits for state pension purposes.

I was thinking what is the worst that can happen if I tip people off on this? Perhaps they may already be claiming it or their income for the year in question remains at £50,000 or more and the higher child benefit tax charge applies.

Even if they are above the £50,000 income limit is it still not worth claiming child benefit as there would be a cash flow advantage up to 31st January 2022

Self-employed – Extend the year end?

The Government have agreed the client can defer their 2019/20 second payment on account tax payment due on 31st July 2020 until 31st January 2021 whether the client is self-employed or not and with no interest running on that deferred payment.

This is great news from a short term cash flow perspective. **Unfortunately, it still has to be paid.**

Let's consider Jasmine's position. I have wanted to give her a projection forward of what her situation might be over the coming months, so she is prepared for it early doors. **On top of that I want to see, based upon those projections, whether or not I could improve her cash flow position still further.**

In her case, by extending the accounting year end I can do that. Her present year end is 31st March. She is a self-employed truant officer. Her income stream came to an abrupt halt in mid-March. Her net estimated self-employed income up to 31st March 2020 is around £55,000 which is broadly in line with the past 3 years. She is unlikely to qualify under the coronavirus self-employed scheme. The earliest she is expecting for an earned income stream to come on board will be September, the start of the new school year.

I will extend her accounts year to either 31st August or 30th September based upon that projection. The 2019/20 taxable profits will be an apportionment of that 17 (or 18) month period **reducing the 2019/20 tax bill down from a broad £13,500 to £8,000.**

Looking at her 2019/20 first payment on account she has already paid £6,750 so we can either

- make a claim to reduce those payments on account and she will **get a tax refund now** of around £2,750 or
- she can have a **smaller balancing payment** to make on 31st January 2021.

We can also review this up to 31st January 2021 and revise accordingly if, let's say, the income stream comes on earlier than expected (hopefully). We can also do this with virtually an interest free holiday up to 31st January 2021.

Jasmine is an extreme case because her income is over £50K and there is literally no self-employed income coming in at present. Some clients will be getting the 80% under the scheme and of course may still be trading.

Your client might also not have a 31st March year end and have some overlap relief available in which case it might be worth while playing with shortening the year end and seeing what happens if you bring the overlap relief into play.

Companies – Extend the year end?

We haven't at the moment got any official deferral on paying across the corporation tax.

There is of course the option to go down the Time to pay route and you would think that HMRC would be open to make a suitable arrangement but presumably that comes with interest charges.

Could we improve the cash flow by lengthening the accounting period up to 18 months and bringing in to play the fallow period? You can shorten accounting periods as often as you like but normally, with the exception of a company in administration or aligning the dates with a subsidiary or parent company, **you can normally only lengthen the accounting period once every five years.**

If I have a company with a 31st March year end with profits of £300,000, the Corporation Tax (CT) bill would be £57,000 due on 1st January 2021.

If let's say the company makes a loss of £150K up to 30th September 2020 and I extend the year end to that date, my 1st January 2021 CT bill would be reduced to £19,000 with a further £9,500 CT payable 1st July 2021.

Instead I could, **do a shortened set of accounts up to 30th September 2020 and carry the trading loss back and obtain a refund once I have submitted the 2021 Return but I've paid the tax upfront.**

Is this the right time to deregister for VAT?

We recently received the good news that VAT payments due to be paid between 20th March and 30th June 2020 could be deferred up to 31st March 2021. Just remember, **if going down that route, to cancel the direct debit.**

The basic rule, as I understand it, for a business to deregister for VAT, is if the business expects it's taxable sales in the next 12 months to be less than £83,000 and it can only be from a current or future date.

If the client is still trading the positives of deregistering might be that it makes the business more competitive and, of course, does away with the administrative cost and time in dealing with it.

The downside of doing so is that if the client is only dealing with VAT registered businesses it won't be able to claim the VAT input tax back on the expenses it incurs.

There is a potential further risk for those clients where they have stopped trading altogether. That is reflected within the VAT Notice 700/11 para 3.2 (VATA 1994 Sch1 para4(2)).

“HMRC will not allow you to cancel your registration if the reduction in your turnover is the result of your intention to stop trading or suspend making taxable supplies for 30 days or more in the next 12 months.”

I would hope, bearing in mind the circumstances that for those who are deregistering some leeway would be shown in this case.

A few further things to note if you are thinking of deregistering your client:

- a) **There may be some VAT output tax due on the final VAT Return in respect of assets and stock owned on the final day of being VAT registered based upon the market value of the asset at the date of deregistration.** There is a de-minimis level of £1,000 plus exemptions such as zero rate and exempt goods, intangible assets and assets where no input tax was claimed when first purchased.
- b) **If a business opted to tax on a property purchase, then your client could be seen as making a deemed supply at the time of cancelling the VAT registration and VAT may need to be accounted for based upon the current market value of the property/land** (VAT Notice 800/11 Para 7.4).
- c) **If your client is within the Capital Goods Scheme, any remaining intervals under that Scheme must be shown on the final VAT Return.** This might result in a large VAT bill on the final return.

I am not a great lover of rumours, but there is one floating about, at present, that if the business did de-register they might not be able to avail themselves of the VAT deferral arrangement presently on offer.

We, thankfully, have VAT specialists who can be called upon to provide this advice in this complex area of tax.

Other VAT thoughts

- a) If the client is in a regular refund position, if you haven't done so already, **is it worth considering switching them a monthly VAT Return?**
- b) Check the client's debt ledger and see if the **VAT Bad Debt relief is an option?**
- c) **Can the business change its VAT tax point** by issuing pro-forma invoices or payment requests?

Capital allowances

I suspect investment into integral features, plant & machinery etc. will be significantly down once we start to come out of this crisis but what about the money already spent to date?

Is it not worth seeing whether additional claims for capital allowances, in respect of expenditure already incurred, can be eked out, which will mitigate your client's tax bill at a time when they most need to do so and without incurring any additional net cost to them as the fee would come out of the tax savings?

If that is of interest let me know. Our capital allowance specialists can complete the due diligence process now and quickly carry out the onsite survey as soon as it is safe to do so.

R&D and the Patent Box

If your client has brought forward some R&D relief from earlier years is it of benefit to surrender that for relief for a tax refund at 14.5% to help with cash flow now rather than perhaps the relief at the CT rate of 19% further on down the line.

Similar to the aforementioned capital allowance scenario, are you fully confident that your client base is not missing a 230% R&D tax claim, effectively going back 2 accounting periods. Each client will need to save every penny they can, in which case, is it not worth triggering off an R&D review to ensure that the claim is not missed at such a vital time? Again, any fees coming out of the tax savings from the claim in respect of expenditure already incurred.

Likewise these same specialists can look to see if the 10% Patent Box corporation tax rate is something your client could make use of as well.

Payroll

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.

Payroll assistance

Quite a number of our members already run their payrolls through our payroll bureaux based in Sheffield and Inverness. As these are difficult times, our payroll specialist has stated that whilst he and his team have spare capacity, if any members' clients struggle to run a payroll due to the COVID-19 situation he is happy to run it during this difficult period. This will always be subject to spare capacity. This would be based upon the normal fees he charges members who presently run their payrolls through him. If that is of some help to you and your clients, please drop me a line.

Wills, Powers of attorney and inheritance tax

This crisis has brought into sharp focus our own immortality. Although it is a difficult, emotive subject to tackle, should we be prompting our clients and prospects alike to:

- a) Revisit their Will or do one in the first place.
- b) Are Powers of attorney in place in case the client becomes incapacitated in some way or other. The nature of these differ dependent upon which part of the UK your client is situated.
- c) Are they worried about their inheritance tax position? Do they know what their inheritance tax position is?

Should we be asking them these sort of questions or reminding them of the potential issues?

Other points worth considering

- a) Is this the time to gift assets away as the value of them may have fallen during this crisis?
- b) If your client is still wanting to incentivise their employees is it worth considering setting up a share scheme or gifting shares to them perhaps because the value is presently?
- c) **Cash rich clients** – is it worth them considering investing in assets such as shares and property because the value maybe low. If possible to continue to put into a pension scheme who likewise maybe investing in assets of low value. The appropriate sort of IFA advice might be required.