



LG News

Recognising genuine HMRC contact

Broadly, phishing is the fraudulent attempt to obtain sensitive information such as usernames, passwords and credit card details by disguising oneself as a trustworthy source in an electronic communication. This is generally carried out by email spoofing or instant messaging, and it often directs users to enter personal information at a fake website which matches the look and feel of the legitimate site.

Most people are aware of the increase in volume and sophistication of phishing campaigns in recent years, but worryingly, there has also been a notable rise in reported incidents of phone calls and/or electronic communications from people claiming to be HMRC.

So, how can you recognise what is genuine HMRC contact and what are phishing, or bogus emails and text messages?

Electronic communications

HMRC never send notifications by email about tax repayments or refunds. Therefore, if an email is received along these lines the recipient should not:

- visit the website;
- open any attachments; or
- disclose any personal or payment information.

Fraudsters may spoof a genuine email address or change the 'display name' to make it appear genuine. If you are unsure, forward it to HMRC (phishing@hmrc.gov.uk) and delete it.

HMRC will never ask for personal or financial information when they send text messages. If you do receive a text message claiming to be from HMRC offering a tax refund in exchange for personal or financial details do not open any links in the message. Send any phishing text messages to 60599 (network charges apply) or email phishing@hmrc.gov.uk then delete it.

HMRC are aware of a phishing campaign telling customers they need to 'download a PDF attachment' to get a tax refund. The PDF attachment contains a link to a phishing site asking for personal or financial information. Do not reply to the email or download the attachment. A recent scam has also been identified on Twitter offering a tax refund.

HMRC publish examples of phishing emails on their website.

Bogus phone calls

Details have recently emerged of an automated phone call scam which informs the listener that HMRC are filing a lawsuit against them, and to press one to speak to a caseworker to make a payment. This scam has been widely reported and often targets elderly and vulnerable people. Other scam calls may offer a tax refund and request the listener to provide bank or credit card information

Anyone who has been a victim of the scam and suffered financial loss should report it to Action Fraud.

In summary, never give out private information (such as bank details or passwords), reply to text messages, download attachments or click on



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For further information including a free demo please call

**Alison Grocott
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**alisongrocott
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any links in emails if you're not sure they're genuine.

Losses in the first years of trade

If a new business makes losses in its first few years of trading, there may be scope to carry back those losses and set them off against other income received in the years prior to commencement of the trade. This is commonly referred to as 'early trade losses relief' and it applies to losses sustained in the tax year in which a trade is first carried on, or in any of the next three the years.

The provisions may be particularly useful to new businesses as they may be used to generate a cash boost in the form of a tax repayment. The general rule is that a business loss incurred in any of the first four tax years of a new business may be carried back against total income of the three previous tax years, starting with the earliest year. Therefore, if tax has been paid in any of the previous three years, a tax repayment may be due.

It should be noted that it is not possible to apportion this type of loss relief for use over a number of years, so as to leave personal reliefs and allowances intact, or to take advantage of beneficial tax rates. However, if losses remain after exhausting all the income for the previous tax years then the remaining losses may for example, be carried forward for set off against future profits from the same trade.

There is a cap on the amount of relief that may be claimed. From 6 April 2013, the limit is the greater of £50,000 or 25% of the individual's 'adjusted total income' for the tax year. 'Income' for the purposes of the cap is calculated as 'total income liable to income tax'. This figure is then adjusted to include charitable donations made via payroll giving and to exclude pension contributions.

A claim for early trade losses relief must be made by the first anniversary of the normal self-assessment filing date for the year in which the loss is incurred.

HMRC are unlikely to allow the relief if they are not satisfied that the business was being carried on on a commercial basis with a view to making a profit within a reasonable timescale. In practice, this requirement may be difficult to prove in the case of a new business and the taxpayer may need a viable business plan to support a claim.

Probate fees changes abandoned

The government has confirmed that controversial increases in probate fees will not go ahead as planned. Fees will now remain at a flat rate, after proposals for a new tiered approach met with strong opposition on the grounds they amounted to a 'stealth tax' on bereaved families.

Following a period of consultation, plans to charge higher probate fees were set out in the Non-Contentious Probate (Fees) Order in November 2018. This proposed abandoning the existing fixed fee of £155 for grant applications made by solicitors and a charge of £215 for those made by individuals for estates valued at over £5,000. Under the new proposals, probate fees would have risen to a sliding scale of up to £6,000 depending on the size of the estate.

The government also proposed raising the threshold for probate charges from £5,000 to £50,000, indicating this would take around 25,000 estates a year out of fees altogether. However, an estimated 280,000 families annually would have faced higher charges under the new system. The government claimed that the increases would fund improvements to the courts service, with forecasts estimating increased income of £145m a year from 2019-20, rising to £185m in 2022-23.

Opposition from the public, MPs, the Law Society and other groups meant the plans were not brought to a vote, and subsequently the fees were not introduced as originally scheduled in April 2019. The move was then put on hold following the prorogation of parliament.

Now the Lord Chancellor, Robert Buckland, has confirmed that the changes have been abandoned altogether. The Ministry of Justice will now review probate charges as part of an annual assessment of fees charged for all proceedings in civil and family courts.

The government has confirmed that controversial increases in probate fees will not go ahead as planned



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Salary or bonus?

As 31 December approaches, many companies will be getting ready to tie up tax matters for their financial year-end and giving consideration to salaries, bonuses and dividends.

Given current tax rates, paying a dividend rather than a salary will often be a more cost-effective way of withdrawing profits from a company. However, if the company is loss-making and has no retained profits, it will not be possible to declare a dividend, and an alternative will need to be considered. This often involves an increased salary or a one-off bonus payment.

From a tax perspective, the position will be the same whether a salary or bonus is paid. Both types of payment attract income tax at the recipient's relevant rate of tax (20%, 40% or 45% as appropriate). However, from a National Insurance Contributions (NICs) perspective, the position, and any potential cost savings, will depend on whether or not the payment is made to a director.

Directors have an annual earnings period for NIC purposes. Broadly, this means that NICs payable will be the same regardless of whether the payment is made in regular instalments or as a single lump sum bonus. In addition, since there is no upper limit of employer (secondary) NICs, the company's position will be the same regardless of whether the payment is made by way of a salary or a bonus.

Where a bonus or salary payment is to be made to another family member who is not a director, the earnings period rules mean that it may be possible to save employees' NICs by paying a one-off bonus rather than a regular salary.

Example

Jack is the sole director of a company and an equal 50% shareholder with his wife Jill.

In 2019/20 they each receive a salary of £720 per month.

In the year to 31 March 2020, after paying out the salaries, the company has a retained profit of £24,000, which will be shared equally between the two shareholders.

They want to know whether it will be cost-effective to extract the profits as an additional salary - each receiving an additional £1,000 per month for the next twelve months - or as a one-off bonus payment with each receiving £12,000.

The income tax position will be the same regardless of which method is used.

As Jack is a director, his NIC position will be the same regardless of which route is taken as he has an annual earnings period for NIC purposes.

However, as Jill is not a director, the normal earnings period for NIC in a month will be the interval at which her existing salary is paid. Assuming NIC rates and thresholds remain the same in 2020/21, if Jill receives an additional salary of £1,000 a month, she will pay Class 1 NIC of £120 ($£1,000 \times 12\%$) a month on that additional salary. Her annual NIC bill on the additional salary of £12,000 will be £1,440. If she receives a lump sum bonus of £12,000 in one month (in addition to her normal monthly salary of £720), she will pay NIC on the bonus of £585 ($(£3,450 \times 12\%) + (£8,550 \times 2\%)$).

Paying a bonus instead of a salary reduces Jill's NIC bill by £855.

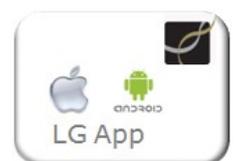
Whilst this example highlights that it possible to arrange matters and potentially obtain tax and/or NIC savings, such savings should never be the only consideration in determining company profit extraction strategy.

November questions and answers

Q. I have recently started running my own business providing training services. HMRC have advised me that VAT is not charged on the type of services I am providing. Does this mean that my services are zero-rated for VAT or actually exempt? Do I need to register for VAT?



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A. Although both zero-rated and exempt supplies result in no VAT being applied to the supply, the consequence is very different between them and it is important to get it right.

Zero-rating is a rate of VAT, albeit at zero per cent. The goods and/or services to which it applies are taxable supplies. This in turn renders any supplier of zero-rated goods and/or services liable to register for VAT, where appropriate (see the GOV.uk website at <https://www.gov.uk/vat-registration> for further information on registration). The advantage of VAT registration is that VAT can be reclaimed on costs. However, a business making solely exempt supplies is not making taxable supplies, so cannot register for VAT. Consequently, all VAT incurred upon expenditure becomes an additional irrecoverable cost. Where a supply could be either zero-rated or exempt, zero-rating will take priority.

Q. I am a company owner and employer. One of my key employees has recently become ill and requires medical treatment. If the company pays for the treatment directly on her behalf, will the employee have to pay tax on it?

A. Expenditure by employers on medical treatment for employees is generally chargeable to income tax either as a payment of earnings or as a taxable benefit. However, an exemption from income tax applies where an employer funds recommended medical treatment where the recommendation itself meets certain specific requirements. This means that expenses incurred by an employer to cover medical treatment which is recommended to an employee for the purposes of assisting the employee to return to work after a period of absence due to injury or ill health should not be treated as a chargeable benefit on the employee. The exemption applies to expenditure up to a cap of £500 per tax year per employee.

Further information on this subject can be found in HMRC's Employment Income Manual at paragraph EIM21774.

Q. I have recently purchased three properties which I intend to rent out. I envisage that I will need to spend a considerable amount of time each year undertaking various necessary repairs. Can I pay myself say, an hourly rate, for the time I spend on the properties and claim a corresponding deduction against my rental income?

A. Any amounts taken from the property rental business will simply be viewed as a withdrawal of profits from the business and taxed accordingly. The HMRC Property Income Manual at paragraph PIM2210 states:

'A landlord can't deduct anything for the time they spend themselves working in their own rental business. They can deduct any wages or salaries they pay to their spouse, civil partner or other relations for working in the rental business provided the amounts paid represent a proper commercial reward for the work done. The spouse, civil partner or relative will be taxable on their earnings if their income is large enough.'

November key tax dates

2 - Last day for car change notifications in the quarter to 5 October - Use P46 Car
19/22 - PAYE/NIC, student loan and CIS deductions due for month to 5/11/2019

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