BUSINESS & COMMERCIAL

Newsletter

ENTERPRISE

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ALBERT GOODMAN

CHARTERED ACCOUNTANTS, TAX CONSULTANTS & FINANCIAL PLANNERS

welcome

This is the final Enterprise Newsletter of 2020, and whilst for many this year has been tougher than any other, it has been a year that has given us an opportunity to reflect, think carefully about future goals and aspirations, and consider what action(s) we may need to take in order to achieve these aims.

It may be finding the courage to start your own business, it may be deciding to offer new products or services, it may be to take existing products or services into new sectors or markets, or it may be to accelerate retirement, succession or exit plans.

Over the last few months I have had conversations on all of these topics and more, and it is clear to me that despite the challenges put before us, entrepreneurial spirit remains strong and there are opportunities ahead.

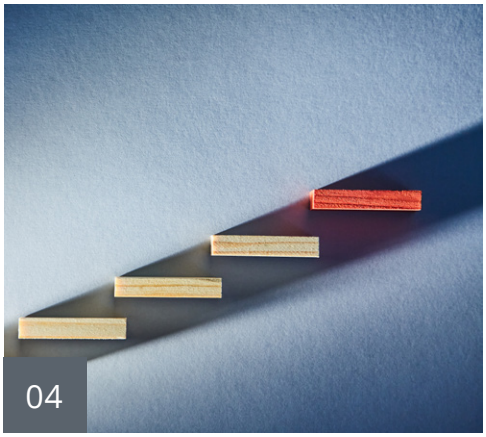
Successful businesses have always had to adapt to changing environments and the end of the Brexit transition period on 31 December will be one of the most significant changes many businesses have to adapt to in the coming months.

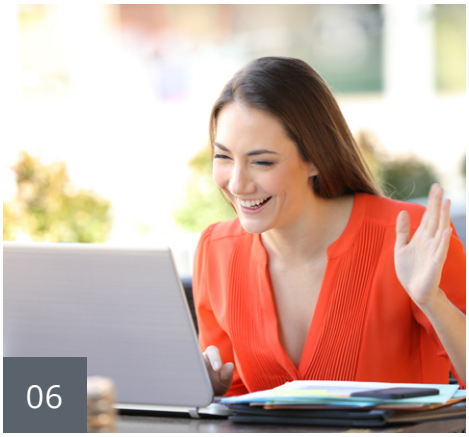
Richard Taylor has recently obtained his certificate from The Institute of Export and International Trade on post-Brexit documentation and compliance and he has written a fantastic article on page 14 on the key changes relating to the import and export of goods from the EU.

This edition also features articles on the rise of the Challenger banks, invoice automation, and HMRC's 10 year strategy amongst others.

Stay well, look out for those around you, and I hope that next year in the words of Captain Tom, "Tomorrow will be a good day", and I will be able to write an introduction without needing to refer to Brexit or COVID-19!

Mike Cahill
Partner





PRIVATE CLIENT

CONTENTS

THE RISE OF CHALLENGER AND DIGITAL BANKS

Not too long ago when you thought of banking you thought of the Big 4 – Lloyds, Barclays, HSBC and NatWest (RBS). This was mainly due to the old regulations of the UK's financial services industry which meant that setting up a new bank with a full UK licence was both time consuming and extremely expensive.

Challenger banks have been on the horizon from as early as 1995 when Virgin Money was established and the introduction of Metro Bank in 2010 was perhaps perceived as when the industry started to change.

Over the last couple of years there has been more competition in the banking sector with the rise of Digital Banks - Starling (2014), Tandem (2015) and Monzo (2016) to name a few. The Big 4 have seen customers drawn to the benefits of digital banking and NatWest's response has been to launch Mettle, which integrates nicely with its cloud accounting software FreeAgent.

You may be asking yourself why are these new digital banks gaining traction so quickly and revolutionising the banking sector? The answer is simple. They've taken what we perceived as the normal banking experience, a trip to the local branch in the high street and flipped this on its head with 24-7 access to the bank via their feature rich Apps. They've also focused heavily on customer service with quick responsiveness and lightning fast account set up times as these were perceived as pitfalls for the High street banks.

More recently, however, some digital banks have come under some scrutiny with the Wirecard scandal and even had some bad publicity in the wake of COVID-19 with some digital banks being unable to provide the government support loans.

Let's start with Wirecard, what went wrong? Well, the new banking legislation which made it easier for the digital banks to join the market has led to some digital banks operating under e-money licences rather than traditional UK banking licences. In practical terms, if a company is operating under an e-money licence they can only generally offer payment services rather than financial products and services.

Wirecard's payment services were used by the likes of Curve and Anna Bank whose customers had their accounts frozen whilst the FCA launched an investigation into Wirecard after its German parent company filed for insolvency following a 1.9bn euro irregularity in the company's accounts. Whilst the accounts were frozen customers were unable to make payments or transfer funds to other accounts.

More recently Starling Bank was able to offer the government Bounce Back Loans to its business account customers as it holds a UK banking licence but the rejection rate for the loans were much higher than its rivals, the Big 4. Leaving some of their customers on the lookout for another lender.

Tide, who operate under an e-money licence had to pause its lending of Bounce Back Loans after the government scheme did not meet the requirements of its prospective funding partners.

So, whilst the new banks can provide a worthwhile facility you may need to consider the wider business implications before choosing them as your sole provider.

If you require any further advice, please get in touch with me or your usual Albert Goodman contact.

Luke Warren
Assistant Manager

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WHAT NO BUDGET?

It has certainly been a funny year and after much speculation about what might be in the Autumn Budget, it has been cancelled.

Due to the general election in December 2019, the 2019 Autumn Budget was also scrapped and in fact, no formal Budget took place in 2019.

Instead, 2020 saw the now Chancellor Rishi Sunak deliver a Budget in March 2020, but this was far from normal as it was heavily focused on a package of support for businesses as the country went into lockdown because of COVID-19. Rishi then delivered a second round of support in a statement on 24 September, dubbed the "Winter Economy Plan".

So where does that leave us now?

At some stage before the 5 April 2021, some form of announcement will have to be made to set out the tax rates and allowances for the 2021/22 tax year. There has been much speculation in the press that taxes will rise to re-coup what has been spent because of the pandemic, however, with the country on the cusp of another wave of the virus and the UK just about to leave the EU, now is probably not the time.

With no indication of when the next Budget will be, everything seems a little in limbo. Not having a clear plan for the coming tax year does make any form of planning difficult and it appears that it's all about survival for the government at the moment. Long term this doesn't help individuals or businesses to make the best decisions and will no doubt have a long term detrimental effect on the economy.

For now, all we can do is watch this space and wait. I certainly think it's going to be a bumpy road ahead!

Sharron Quick
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OFF TO UNIVERSITY

With children heading off to university or other higher education we are often asked if there are any tax reliefs for the, not insubstantial, costs which are often borne by parents.

Generally the cost of education is a private expense and tax relief is not available, however, there is a limited opportunity in some circumstances where children are employed in the family business.

This is found tucked away in s776 ITTOIA 2005 which provides a tax exemption for scholarship income. HMRC practice is to apply this exemption to employers who pay a scholarship towards an employee's full time education at university, technical college or similar educational establishment.

There are conditions of course but the exemption can allow the employer to pay up to £15,480 towards travel, accommodation and subsistence costs incurred whilst on the study course. This does not include wages whilst the individual is working for the business.

The student must be a bona fide employee of the business in their own right. This exemption does not extend to the children of directors and employees, and a scholarship in that case would be taxed on the parent.

If this is something that you would like to explore further, please contact me or your usual point of contact at Albert Goodman.

Andrew Law
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SELF-EMPLOYMENT INCOME SUPPORT SCHEME EXTENDED

An extension to the Self Employment Income Support Scheme (SEISS) has been announced, to offer those who are self-employed and are still being adversely affected by Coronavirus, a similar level of support as the Job Support Scheme.

Only limited details are currently available with further guidance being released soon.

The details we know so far are:

- There will be two additional grants covering six months in total – the first covering November 2020 to January 2021 and the second covering February 2021 to April 2021.
- The eligibility criteria will remain the same as the first two SEISS grants, so unfortunately the grant extensions will not be available to those who began trading on or after 6 April 2019.
- However, you do not need to have claimed the first two grants in order to claim either of the grant extensions.
- If you do meet the eligibility criteria, then you will be able to claim the first extension grant if you are adversely affected by Coronavirus between 1 November 2020 and the end of January 2021.
- The first extension grant will cover 20% of three months average trading profits up to a maximum of £1,875.
- The amount of the second extension grant will be reviewed by the government and set out in the future.
- The grant will not need to be repaid but will be liable to Income Tax and Class 4 National Insurance and will need to be included on your 2020/21 tax return.

If you do have any queries in relation to the SEISS grants then please do get in touch with your usual contact at Albert Goodman who will be able to assist you.

Katie Hodge
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HMRC'S 10 YEAR STRATEGY

In the March 2020 Budget, the Chancellor highlighted the government's intention to create 'a tax system fit for the challenges and opportunities of the 21st century'. More detail was released to back this up in July 2020, but this received little air time due to the ongoing pandemic. However, the way we interact with HMRC has changed significantly over the last ten years and looks set to change further in the next ten.

Over the last six months we have seen unprecedented changes made by HMRC in record time with the set-up of the online claim system for the Furlough and Self Employed Income Support Schemes. Whilst there may be debate about the fairness of who received support, you cannot deny that the IT systems created to deliver these support packages worked and were world class.

In the recently published report, I sense that HMRC are looking to build on this and digital services will be at the heart of how taxpayers interact with them going forward.

The report talks of resilience and effectiveness; greater ease of use and the ability for all to pay the right amount of tax at the right time. Making Tax Digital will certainly be at the heart of this and the roll-out is set to continue with all VAT-registered businesses having to comply from April 2022 and then from April 2023, businesses and landlords with business income over £10,000 per annum, which are liable for Income Tax, will need to keep digital records and use software to update HMRC quarterly through Making Tax Digital.

The recent change made in respect of Capital Gains Tax reporting is another example of HMRC's drive towards digital services. Whilst this hasn't worked quite a well as the COVID-19 support systems, it further demonstrates HMRC's desire to move everything online. All tax payers therefore need to consider their position sooner rather than later and embrace the change.

If you would like any further information on this, please contact me or your usual Albert Goodman contact.

Sharron Quick
Senior Manager

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EXTENSION TO THE TEMPORARY REDUCED VAT RATE & DEFERRED VAT PAYBACK PERIOD

Reduced rate extended

Various temporary reductions to VAT rates have been introduced to help businesses through the Coronavirus pandemic.

The reduced rate of 5% applies from 15 July 2020 and was due to end on 12 January 2021 but has been extended to 31 March 2021. It applies to supplies of hot and cold food for consumption on premises and to hot food to takeaway, non-alcoholic beverages, accommodation and admission to tourist attractions. Supplies of cold takeaway food for consumption off premises, such as sandwiches were and are still zero-rated, but not items such as crisps and confectionery which are standard rated.

Extended timescales for payment of deferred VAT

If your business has deferred any VAT payments due between 20 March 2020 and 30 June 2020 the original scheme required payment of the deferred VAT by March 2021. However, the Chancellor has announced an extension to this timescale and it may be possible to make payment in 11 equal instalments payable between April 2021 and March 2022. An online application will however be required for this further deferral.

If you normally pay your VAT by Direct Debit make sure this has been set up again. HMRC will not collect any deferred VAT by Direct Debit and you will need to take steps to pay this separately.

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FURLOUGH TO END 31 OCTOBER - REPLACED BY THE JOB SUPPORT SCHEME

The Job Support Scheme is designed to protect viable jobs in businesses who are facing lower demand over the winter months due to COVID-19, to help keep their employees attached to the workforce. The scheme will open on 1 November 2020 and run for 6 months.

The company will continue to pay its employee for time worked, but the cost of hours not worked will be split between the employer, the government (through wage support) and the employee (through a wage reduction), and the employee will keep their job.

The government will pay a third of hours not worked up to a cap, with the employer also contributing a third. This will ensure employees earn a minimum of 77% of their normal wages, where the government contribution has not been capped.

Employers using the Job Support Scheme will also be able to claim the Job Retention Bonus if they meet the eligibility criteria.

The key facts for this scheme are:

- Employees must have been on the payroll on or before 23 September 2020.
- The employee must work at least 33% of their usual hours.
- For the hours worked, the employee must be paid their normal contracted wage.
- For the hours not worked, the employee will be paid up to two thirds of their usual wage subject to the government cap.
- The government contribution will be capped at £697.92 per month.
- The government contribution will cover wage costs only, not National Insurance or pension contributions.
- Claims will be made through Gov.UK from December 2020.

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PLANNING FOR CHANGES IN THE ANNUAL INVESTMENT ALLOWANCE

The Annual Investment Allowance ("AIA") was increased temporarily to £1,000,000 from 1 January 2019 but the intention is this will revert to just £200,000 from 1 January 2021.

The AIA entitles businesses to a 100% deduction against profits for the cost of purchasing capital equipment / plant and machinery in the year of purchase. Most types of plant and machinery, such as computer and office equipment, vans, lorries, coaches, tractors, diggers and cranes - qualify for AIA, as well as integral features. The main exception is motor cars.

Where qualifying capital spend is made in excess of the AIA, the excess will usually qualify for writing down allowances ("WDAs"), where tax relief is available at 18% or 6% depending on the nature of the spend.

Overview of Changes

For accounting periods that straddle 31 December 2020, the last day where the AIA is set at £1,000,000, great care will be needed to quantify the AIA available to a business to ensure it does not miss out on significant tax relief.

The first step will be to quantify the AIA for a period, as it will be necessary to time-apportion the applicable AIA limits to arrive at the maximum AIA entitlement for a business.

Care then needs to be taken when timing the purchase of capital equipment as there are certain restrictions imposed for those accounting periods that straddle the changes in AIA entitlement.

Accounting periods straddling the reduction in AIA to £200,000

The AIA available to businesses with accounting periods ending after 31 December 2020 comprises two parts:

1) the first based on the temporary £1,000,000 annual cap for the portion of the period falling before 1 January 2021, and

2) the second based on the £200,000 cap for the portion of the period falling on or after 1 January 2021.

YEAR END	Maximum total AIA for the year	Restrictions for assets purchased on or after 1 January 2021 (see note 1)
31 January 2021	933,333	16,667
28 February 2021	866,667	33,333
31 March 2021	800,000	50,000
30 April 2021	733,333	66,667
31 May 2021	666,667	83,333
30 June 2021	600,000	100,000
31 July 2021	533,333	116,667
31 August 2021	466,667	133,333
30 September 2021	400,000	150,000
31 October 2021	333,333	166,667
30 November 2021	266,667	183,333
31 December 2021	200,000	200,000

Note 1

The timing of the purchase of capital equipment will need to be carefully considered as the transitional rules mean that unfortunately the maximum total AIA for the period is only available on additions made on or before 31 December 2020. For any assets acquired in the 2021 months, the AIA available for these purchases is restricted as shown in the table above.

For example, a company with a year end of 31 March 2021 will have a maximum total AIA entitlement of £800,000 for the year. Of this amount, only £50,000 will be available to claim against additions made after 31 December 2020 (in the 2021 months). The company would, however, be able to claim the full £800,000 against additions made between 1 April 2020 and 31 December 2020.

Planning Opportunties

Where possible a business should bring forward its capital purchases and ensure these are made ahead of 31 December 2020, to benefit from the maximum AIA available. As a reminder, where costs are not covered by the AIA they will normally attract WDAs at annual rates of 18% or 6% - although tax relief is then delayed over several years.

Where it is not commercially viable to commit to such purchases in the current calendar year, care should be taken when deciding on the purchase date to ensure the most favourable tax relief in the year of spend is achieved. This may mean that the asset purchase is delayed until a period end that falls after 2021 when the business can benefit from the full £200,000 of AIA without timing restrictions. This could lead to faster tax relief for the business overall.

For example, a company with a March year end is considering the purchase of £200K of plant. It is not possible for this to be made before 31 December 2020 and so the directors are considering when to buy. If the asset is bought on 1 March 2021 just ahead of the 2021 year end, only £50K of the AIA will be available for offset because of the transitional rules, meaning total corporation tax relief in year 1 will be given of £9,500 (based on the residual qualifying for 18% WDAs). The remaining tax relief would then be awarded year-on-year at 18% WDAs on the residual balance.

If the purchase had been delayed until 1 April 2021 (the start of the 31 March 2022 year end), the company would have benefitted from the full £200,000 of AIA, meaning the asset would have been covered in full, with 100% relief given in year 1, and a total tax saving of £38,000 made. An increase in tax saved of £28,500 by delaying the purchase by a month.

Other Considerations

The availability of AIA can depend on many factors, including the date the expenditure is deemed to be incurred and this can be complicated where financing arrangements, stage payments and extended payment terms are in operation. The AIA must also be shared across groups of companies or companies under common control.

If you are planning on incurring significant capital expenditure soon, you may find it useful to get in touch. This is so we can advise you on the best time to incur this expenditure and ensure your business does not miss out on the potential tax relief available.

Kelly Di Notaro
Tax Manager

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ENHANCED TIME TO PAY ARRANGEMENTS FOR JAN 2021 SELF-ASSESSMENT TAX

You may already be aware that the government have announced an enhanced Time To Pay (TTP) scheme for those who have been affected by Coronavirus and are struggling to make their tax payments.

This arrangement will allow any liabilities that are due on 31 January 2021 to be spread across up to 12 monthly instalments, and you will be able to apply for this online using a personal tax account, providing the following criteria are met:

- You must have filed your 2019/20 tax return (and have allowed HMRC time to process the return which can take up to 72 hours) and also have no other tax returns outstanding.
- You cannot have any other payment plans set up with HMRC or any other tax debts.
- Your debt must be between £32 and £30,000.
- Strictly the payment plan must be set up within 60 days of the date of the tax becoming due i.e. 1 April 2021, but it is advisable to ensure it is set up before 2 March 2021 to avoid any late payment penalties from being charged.

If you do not meet this criteria, your debt is more than £30,000 or you wish for the payment period to be longer than 12 months, you may still be able to set up a Time To Pay (TTP) arrangement but will need to call the normal self-assessment helpline on 0300 200 3822.

The enhanced Time To Pay (TTP) arrangement can include all tax which is due on 31 January 2021, including:

- Any deferred 2019/20 second payment on account (that was originally due on 31 July 2020)
- Your 2019/20 balancing payment
- And your first 2020/21 payment on account

Unlike the deferral of the second 2019/20 payment on account, interest will be charged from 1 February 2021, on any outstanding amount, until it is fully settled. If you would like to take advantage of the enhanced TTP arrangement then please get in touch with your usual point of contact at Albert Goodman who will be able to provide you with further details.

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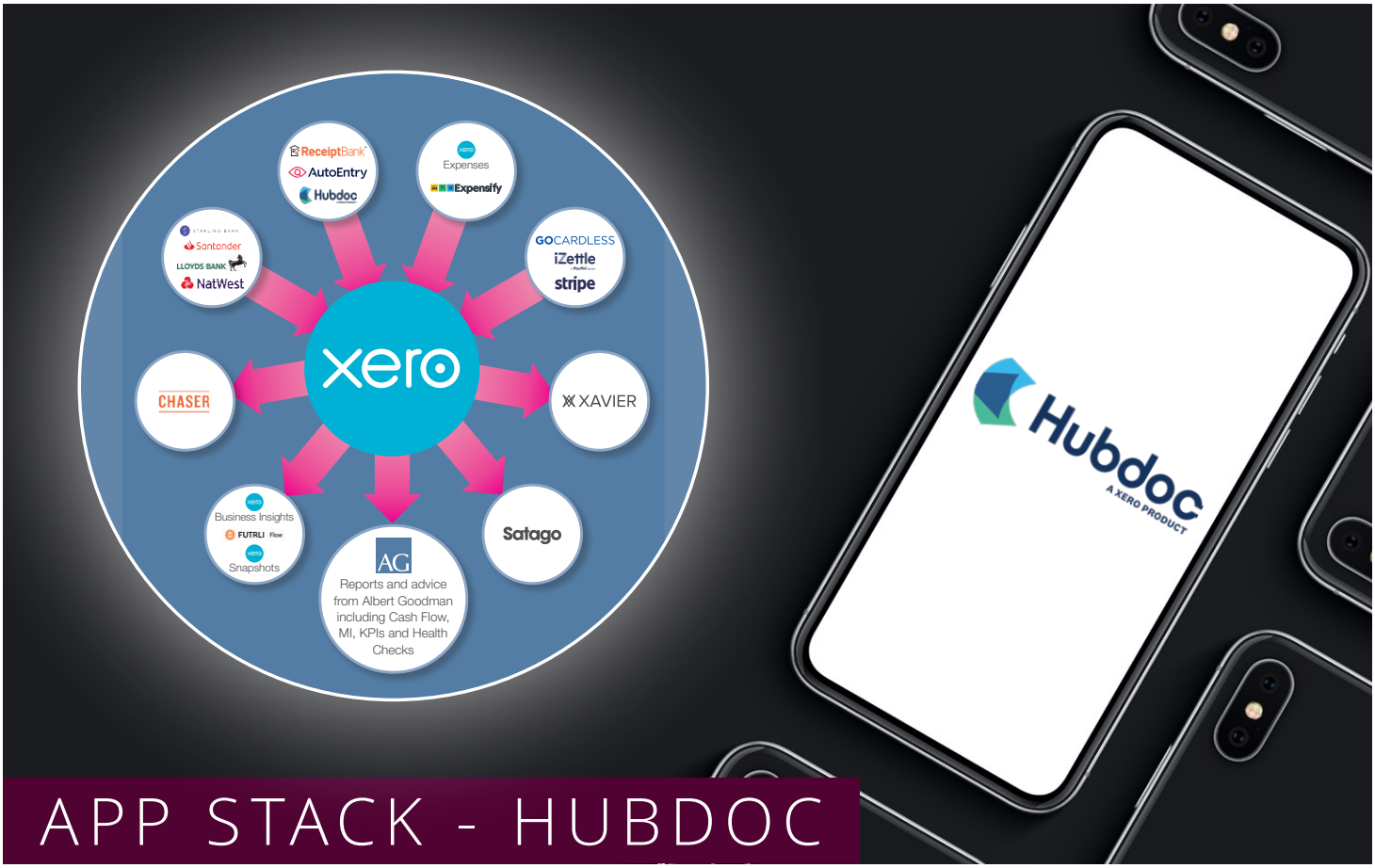

APP STACK - HUBDOC

Having gone slightly off message in the last newsletter to focus on COVID-19 support, I am now returning to my planned series of articles focusing on the AG App Stack. This month I am looking at invoice automation and wanted to share with you Hubdoc. This app was acquired by Xero sometime ago and has now been linked to Xero, so that you can access it from within the package.

So, what is invoice automation and how can it benefit you. Think about the following questions:

- **Where do you keep your paper receipts and invoices - glove compartment, shoe box, carrier bag or are you organised with an in-tray and lots of files?**
- **Have you missed out on tax relief because of lost paperwork?**
- **Do you enjoy typing up every invoice onto a spreadsheet or into your accounting software?**
- **Do you want to stop handling paper for whatever reason – possibly the pandemic has highlighted the need to handle paper less?**

Well, invoice recognition software such as Hubdoc can help.

How does it work? Hubdoc uses OCR (Optical Character Recognition) technology to analyse your receipts and other scanned documents for useable data.

Hubdoc makes it easy to capture bills and receipts by email, mobile, desktop or scanner so they're all stored online, in one place.

When you upload your receipts, Hubdoc converts that data into digital files, ready for export to Xero.

With a little upfront work setting up rules specific to your business, Hubdoc automatically extracts the key information from each bill or receipt so it's ready to copy into Xero with the original document attached.

Hubdoc then syncs the data from your bills and receipts to Xero and posts them as accurately categorised transactions that are then available for you to match with your bank feed.

Hubdoc is free with business editions of Xero so what have you got to lose? It will take a little upfront investment of time to set up, but in the long run will save time and improve the quality of your records.

Please contact me or your usual Albert Goodman contact for more infomation or help to find out more about Hubdoc, Xero or any other cloud systems.

Clare Blackmore
Director of Cloud Accounting

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PREPARING FOR BREXIT - VAT AND CUSTOMS CHANGES

As if COVID-19 was not enough for businesses to deal with, the end of the Brexit transition period is rapidly approaching.

While the UK has left the European Union (EU) we are currently in a transitional period that ends on 31 December 2020. From 1 January 2021 the UK will operate a full external border and controls will be placed on the movement of goods.

The procedures for goods moving to or from the EU will be similar to those currently in place for movements between the UK and the Rest of World. Businesses currently moving goods to or from non-EU countries should be familiar with what will be required. For businesses that have only ever dealt with the EU, the changes may require more consideration and preparation.

For imports from the EU the changes will occur in three phases.

From January 2021:

- Customs declarations will be required for controlled goods (those goods that need to a license to be imported such as alcohol and tobacco)
- For other goods a declaration will also be required but there will normally be scope to defer them, and the payment of any duty, for up to six months
- Import VAT will be payable on any standard or reduced rated goods being imported into the UK from the EU

From 1 April 2021:

- Products of animal origin such as meat, pet food, milk or egg products and regulated plant products will need pre-notification to Customs and relevant health documentation

From 1 July 2021:

- Customs declarations will be needed at the point of importation for all goods

Customs Declarations for exports to the EU will also be required from 1 January 2021. Evidence to show goods meet the EU import requirements may be required if the goods are to be admitted into the EU, this could include Export Health Certificates.

This will be true regardless of the outcome of negotiations and whether the UK and the EU conclude a Free Trade Agreement (FTA). If there is no FTA, duty may be payable on goods moving between the UK and EU.

The way import VAT is accounted for by VAT-registered businesses on imports is also changing from 1 January 2021. The new system is called Postponed VAT Accounting (PVA). Rather than paying import VAT when the goods arrive and reclaiming the VAT through the VAT return, often months later, the import VAT is paid and reclaimed (subject to the normal rules) at the same time through the VAT return. PVA is compulsory where Customs Declarations are deferred but is optional for other imports. It will provide significant cash flow benefits so is worth considering.

There will be a new online system which will detail the import VAT due to be accounted for through the VAT return.

For non-VAT registered businesses who have to pay import VAT, using a Duty Deferment Account will allow them to pay any import VAT monthly rather than at the time of import. This may provide some cash flow benefits.

The Duty Deferment Account will also allow any business to pay import duty on a monthly basis rather than for each individual import.

There are some important steps to take to ensure your business is prepared for Brexit.

- Make sure you have an EORI
- Consider who will submit customs entries
- If using a freight forwarder or customs agent discuss the changes with them
- Discuss the changes with EU suppliers or customers
- Consider applying for a Duty Deferment Account

If you are concerned about the impact of the new rules on your business, please contact me or your usual Albert Goodman contact to discuss this matter further.

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