

# TAX BRIEFING

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AD VALOREM (NORTHERN)

CHARTERED TAX CONSULTANTS & ACCOUNTANTS

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## MTD FOR VAT IS COMPULSORY

**F**or VAT periods starting on and after 1 April 2022 all VAT records must be recorded digitally and returns must be submitted under the Making Tax Digital (MTD) regime.

If you are not already submitting your VAT returns using MTD-enabled software (or asking me to do so) you need to take action.

I can help with this.

Review how you record your VAT transactions - using a spreadsheet is acceptable under MTD. However, you will need software to transmit the VAT return data to HMRC without retyping or copying and pasting the figures. There is plenty of choice in the market, from cloud-based systems to relatively simple bridging software that will connect to spreadsheets. I can help you to decide what is right for your business.

If you pay your VAT by direct debit you must leave five days after the due date for your last VAT return before signing up for MTD. But do not delay after this as you need to be in the MTD system at least seven days before your first MTD VAT return is due.

**If you are not already submitting your VAT returns using MTD-enabled software you need to take action**

Do not assume that you can ignore MTD; HMRC can impose nasty penalties if you refuse to comply, such as £400 for failing to submit the VAT return in the correct format.

The next stage is to sign-up for MTD with HMRC. Although you are already VAT registered there is a separate mechanism to get into the MTD system.

If your turnover is relatively low and you do not expect it to increase, we can discuss whether it would be sensible for you to deregister to avoid the MTD regime.

## DECLARE YOUR COVID-19 GRANTS

**T**he Covid-19 support grants (CJRS, SEISS and Eat Out to Help Out) are taxable and should be declared on your business' tax return.

For corporation tax (CT) you must report amounts received in the accounting period covered by the return, not grants claimed for the period and paid in a later period.

The first CJRS grants were paid in April 2020 but the CT return forms were not amended to include special boxes to report those grants until September 2021. If your CT return was submitted before the new version of the form was released the grant figures will not be easy to spot.

If HMRC cannot match the reported CJRS grant on the CT return to the amount paid to the company it will write to request an explanation.

If you receive such a letter please talk to me as soon as possible. It is important to take the letter seriously and reply with 30 days, as failure to do so may trigger a formal tax enquiry into your business.

I will either amend the CT return to include any omitted Covid-19 grant income or confirm to HMRC that all grant income has been included within reported income.





## VAT ON TERMINATION FEES

**C**ontract termination fees can be a bitter pill to swallow when you just want out of an expensive agreement.

What's worse is that some suppliers will charge VAT on top of the cancellation fee while others will not.

**H**MRC has laid down firm guidance on how termination fees should be treated

Where your business charges cancellation fees, say for gym membership, hiring of rooms or restaurant tables, you need to review your VAT policy to ensure that it is in line with the new HMRC guidance from 1 April. I can help you with this.

The law has been a bit of a mess but HMRC has laid down firm guidance on how termination fees should be treated for VAT purposes from 1 April 2022. From this date any fee paid on the early termination of a contract should follow the VAT treatment of the main supply under that contract.

If you are planning to terminate a contract early, which would create a cancellation fee, consider doing this before 1 April 2022. But first ask your supplier about the level of the charges and whether they intend to charge VAT on top.

## COVID-19 SICK PAY SCHEME ENDS

**A**s we are now at the 'living with Covid-19' stage of the pandemic the Government has decided to close the Covid-19-related statutory sick pay (SSP) rebate scheme on 17 March 2022.

The scheme re-opened on 21 December 2021 for employers with fewer than 250 employees. It permits the employer to reclaim up to 14 days of SSP paid to an employee who is unwell or isolating due to Covid-19 and allows SSP to be paid from the first (rather than fourth) day of sick leave.

**F**rom 25 March 2022 SSP will revert to being payable from the fourth day of absence

This is an incredibly tight deadline, especially as the SSP has to be paid to the employee before it can be reclaimed. I can help you with your SSP refund claims.

Also from 25 March 2022 SSP will revert to being payable from the fourth day of absence from work, even if the absence is due to Covid-19.

All claims for refunds of SSP paid must be submitted to HMRC by 24 March 2022. This is also the deadline for amending any earlier SSP refund claims.

## TAX ON PPI INTEREST

Do you remember those annoying 'claim back your PPI' adverts? Thousands of people received repayments, which included interest calculated at 8% on the PPI premiums refunded.

This is turning into another potential scam as 'tax refund companies' are persuading taxpayers to submit refund claims for the tax deducted and some keep a large slice of the refund. HMRC is also getting overwhelmed with claims.

any PPI interest and claim a tax refund.

Where the PPI settlement was paid after September 2013 the bank or insurance company should have deducted tax at 20% from the interest element. This was correct but if the interest received is covered by the taxpayer's savings allowance of £1,000 or £500 that tax can be reclaimed.

If you received a PPI settlement, the interest element and tax deducted should have been declared on your self assessment tax return for the year in which you received the money. I can help you amend your earlier tax return to declare

If you are not within the self assessment system you need to claim the tax refund on a form R40. This can be done online by signing in through Government Gateway or by post, but an online claim will be processed quicker. Do not under any circumstances let anyone else use your Government Gateway credentials to claim a tax refund on your behalf.





## HOSPITALITY VAT RATES INCREASE

The hospitality and tourist sectors have been supported through the Covid-19 pandemic by being able to pay a reduced amount of VAT to HMRC in respect of most sales.

The reduced VAT rate was 5% from 15 July 2020 to 30 September 2021 and 12.5% from 1 October 2021 to 31 March 2022.

The sales affected by this special reduced VAT rate include: restaurant meals; hot takeaway meals (not sandwiches); hotel and similar accommodation; and entrance fees to tourist attractions. The reduced VAT rate also applied to non-alcoholic drinks taken with a restaurant or café meal eaten inhouse, but where the drink was part of a takeaway it had to be hot.

**If you operate in these sectors check that your accounting system will apply the correct VAT rate**

The business was not required to lower its prices to reflect the reduced VAT so could keep the difference as extra profit. But that benefit is now ending as the standard rate of 20% is restored from 1 April 2022.

If you operate in these sectors you should check that your accounting system and point of sale equipment will apply the correct VAT rate from 1 April 2022. You also need to be particularly careful with the VAT return for the period that straddles 1 April. I can double-check the figures for you before submitting the return.

It may be a good idea to review all VAT returns covering the reduced-rate periods to see if you have overpaid or underpaid VAT. Any such small errors can be adjusted on your next VAT return.

## ADVISORY FUEL RATES

The price of road fuel has increased significantly in the last few months and HMRC has responded by raising all the advisory fuel mileage rates for company cars from 1 December 2021.

Engine size	Up to 1400cc	1400- 2000cc	Over 2000cc
<b>Petrol</b>	13 p	15P	22p
<b>LPG</b>	8p (9p*)	10p	15p
<b>Diesel</b>	11p	13p	16p
<b>Electric</b>	5p	5p	5p

If you pay for the fuel in your company car your employer can reimburse you for the cost of business journeys in that car at the following mileage rates tax free:

\*The LPG mileage rate for the smallest cars was reduced from 1 March 2022.

As diesel engines tend to be bigger, the division between rates is set at 1600cc rather than 1400cc.

## CRYPTOASSETS ARE TAXABLE

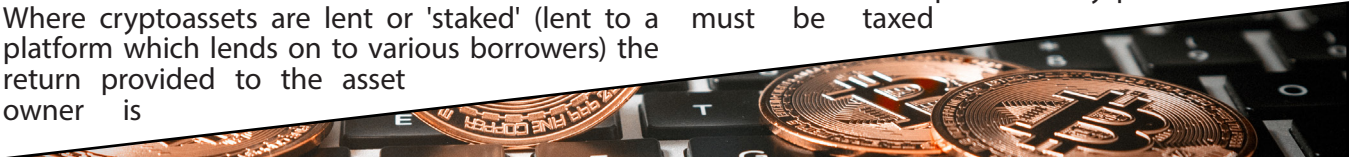
In uncertain times people instinctively look for alternative ways to invest and some may choose cryptoassets such as Bitcoin and non-fungible tokens.

If you decide to go digital with your investments, think about how the profit or loss you make on these assets will be taxed. HMRC does not consider cryptoassets such as Bitcoin to be a form of money or currency, so the special tax rules that apply to holding and lending money do not apply to cryptoassets.

**For every sale or exchange of cryptoassets a gain or loss must be calculated** not 'interest' but it is taxable either as sundry income or a capital gain.

HMRC is unlikely to consider transactions in cryptoassets as trading, so by default the transactions are capital and any profits must be taxed

Where cryptoassets are lent or 'staked' (lent to a platform which lends on to various borrowers) the return provided to the asset owner is







as capital gains. This means that for every sale or exchange of cryptoassets a gain or loss must be calculated.

This can create serious practical problems as crypto-transactions are often automated and carried out in vast numbers over short periods. You need to extract the necessary transaction data from the digital exchanges and digital wallets you use so that

each transaction can be analysed into a capital gains tax computation. I am not aware of any software that will do this yet so this information gathering can be time consuming and expensive.

Finally, HMRC is aware of cryptoasset transactions as it receives information about customers from digital exchanges.

## VALUATION OF LET PROPERTY

**When an individual dies everything they own is valued to calculate the inheritance tax (IHT) due on their estate.**

These assets include the deceased's main home and any let properties they may own.

All of the assets must be valued based on a deemed transfer at open market value immediately before the deceased's death. It is the condition of the assets as they existed at the date of death that is important, not the value at some later date after any pre-sale adjustments have been made.

Where a let property has a tenant in occupation at the date of death the value of that property for IHT purposes is the tenanted value - how much the property could be sold for with the tenant in residence - not the 'with vacant possession' value. This value should also take account of the unexpired

period on the lease or licence at the date of death, as a longer outstanding lease period will generate a higher discount on the vacant possession value than a shorter lease term.

**I can help you with the IHT forms at this difficult time, so please get in touch**

Where the property is jointly owned, only the proportion of the value attributable to the deceased should be included in the estate. It is crucial to find out whether the property is owned as joint tenants ('joint owners' in Scotland) or as tenants in common ('common ownership' in Scotland). The executors also need to know the relationship between any joint tenants as this determines the valuation method.

I can help you with the IHT forms at this difficult time, so please get in touch.

## INTEREST ON LATE PAID TAX

**All late paid tax now carries interest at 3%. Where the tax has been outstanding for more than six months a 5% surcharge on the outstanding amount may also apply.**

Surcharge rates of up to 15% can apply for VAT paid just one day late. If you can only pay some of your tax bills it often makes sense to prioritise the VAT but I can help you decide.

A first step when faced with a tax bill you cannot pay should be to contact HMRC and make an arrangement to spread the bill over a number of months. This is called a Time to Pay agreement and can be done online if you owe HMRC less than £30,000. Where the debt is greater than £30,000 or you need more than a year to pay, you need to speak to an HMRC officer and provide more information. I can help you with that.

If you have income tax still outstanding from 2019-20 but you are due a tax repayment for 2020-21 you might

assume that the repayment would be off-set against the tax due and prevent any further interest running. Unfortunately this is not how the tax rules work. The tax repayment for 2020-21 is generally off-set against the outstanding tax, but only with effect from the final deadline for submitting the tax return: 31 January 2022 for the 2020-21 tax return.

If your 2020-21 tax return was submitted earlier than 31 January 2022 we can ask that HMRC treats the effective date of the repayment off-set as the date when your tax return was logged as received by HMRC. This should remove much of the interest charged.