

# BUSINESS E+

## PLANNING FOR THE STORMS AHEAD



**David Scrivener**  
Managing Partner

[david.scrivener@ensors.co.uk](mailto:david.scrivener@ensors.co.uk)

To say that 2020 has been a difficult year is clearly a colossal understatement. And we sit here contemplating a winter where our health and economic wellbeing are set on what seems like an unstoppable collision course.

Whilst the Government have made several mistakes in the handling of this crisis I, for one, would not want to be in their shoes as they attempt to navigate a path that inevitably has to compromise in both areas. 66 million people with 66 million different opinions and several million new-found "experts" in epidemiology...

As accountants, we are doing what we do best and helping our clients deal with the economic fall-out of COVID-19. It has come in waves, much like the virus. Firstly we saw the panic from some businesses – do we need to close, make everybody redundant, cut our losses? Then came the very welcome measures (most notably the furlough scheme and the government backed loan schemes) that have bought so many businesses and individuals much needed time.

I, like several others, forecast "cliff edges" that would bring catastrophic job losses and business failure if not addressed. The end of furlough. The repayment of HMRC deferrals. Interest and capital payments falling due on borrowings that were taken on to get through the initial period of lockdown.

Thankfully in the last few weeks additional measures have softened all of those cliff edges but we do have to be careful not to be lulled into a false sense of security.

*Continued  
overleaf* ▶



## Planning for the storms ahead *continued*

Simply kicking the proverbial can further and further down the road.

As with many things in life, sound planning can help. Anecdotally, for example, a number of businesses have been able to steady or even improve their cash flow during this period and have plans in place to lower or defer outgoings. However, it is now more important than ever for businesses to prepare for Q2 next year. As the economic stimulus starts to unwind plans will need to be in place to ensure businesses are strong enough to move forwards. And lest not forget. If this coincides with a period of economic rejuvenation in the Spring (as we all sincerely hope) then we could see the added complication of more cash being required to finance growing businesses' working capital.

If you would like any support with formulating plans or, would simply like to use us as a 'sounding board' for existing plans, please speak to us. We can help.

On a practical and personal level, every Ensors office has remained "open" throughout the lockdown period albeit with vastly reduced numbers of people attending and a focus on working safely and predominantly from home in accordance with Government guidance.

We all have the technology to work "anywhere" with phones, emails and other correspondence all routed seamlessly to our colleagues.

Our colleagues have been great at finding innovative ways to make things happen and they remain available to deal with the usual, and the out of the ordinary, questions that you may have.

In this edition we focus on a number of topical issues.

- Landlords have had a very tough ride post-lockdown and Matt Herd looks at ways in which tax planning can be used to help at this time.

- The last Chancellor's budget in March is long since forgotten but there were some significant changes to Entrepreneurs Relief that are worth knowing if you are considering the sale of a business.

- When is a van not a van? Yvonne Graham explains the outcome of a recent tax case that clarifies previous guidance on this subject.

- There is also the usual dose of tax and VAT updates and the chance to "meet" our newest and aforementioned Tax Director, Matt Herd. Matt's a great guy and joined us a few months pre-lockdown, quickly settling in to become an important part of the team.

Thank you for taking the time to read our latest Newsletter.

Best wishes  
**David**

## NEWSBITES...



### Construction DRC for VAT

Due to the impact of the Coronavirus pandemic, the overhaul of how VAT is accounted for in the construction sector is now due to come into effect on 1 March 2021. The Domestic Reverse Charge for VAT was originally scheduled to become effective on 1 October 2019. This was postponed 12 months to allow more time for businesses to prepare however, the impact of Coronavirus has further postponed implementation by five months. For more information on DRC for VAT please visit our website <https://www.ensors.co.uk/resources/briefings/270/All-change-for-VAT-in-the-construction-sector/>

### Don't forget – 30-day CGT rule

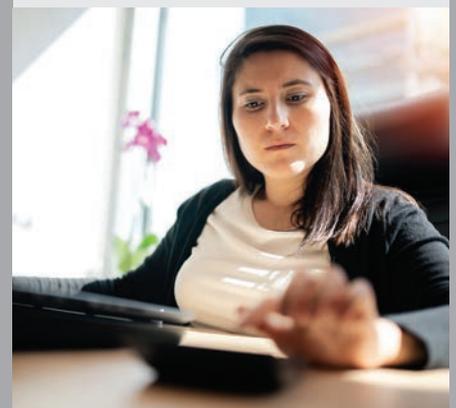
As of 6 April 2020, if you sell a residential property in the UK you must report and pay Capital Gains Tax (CGT) within 30 days of the disposal. For further information please visit HMRC website <https://www.gov.uk/capital-gains-tax/report-and-pay-capital-gains-tax>

### MTD for VAT

The initial "soft landing period" for MTD for VAT comes to an end on 31 March 2021. After this date businesses will need to ensure that they have digital links between all parts of their software programs and products. The use of "cut and pasting" or "copy and pasting" data will no longer be accepted for VAT return periods beginning on or after 1 April 2021, although importing of a .csv file, for instance, is still allowed. Please speak to your usual Ensors contact to ensure you are compliant with the new rules.

### Off payroll working

The new off-payroll working ("IR35") rules that were deferred from April 2020 will come into effect from 1 April 2021 and will see responsibility for determining the employment status of workers shifting from the intermediary to the end client in many circumstances. If you provide services through your own personal service company or, hire the services of such a company and think you may be affected, please speak to your usual Ensors contact to ensure you understand your obligations.



# VAT

## explained



**Helen Carey**  
VAT Director

[helen.carey@ensors.co.uk](mailto:helen.carey@ensors.co.uk)

Two of the more common errors experienced by businesses.

### Late VAT registration

Businesses trading beneath the VAT registration threshold need to constantly monitor their taxable turnover. If that turnover exceeds £85,000 (based on income received) at the end of any rolling twelve-month period the business must notify HMRC of its liability to register for VAT within 30 days of the end of that period and register for VAT from the first day of the following month. This twelve-month period does not run to calendar or financial years, businesses must calculate their total turnover for the previous twelve months at the end of every month.



Frequently, a business only becomes aware that it has breached the VAT registration threshold when the annual accounts are prepared. Calculating when the breach occurred can be a time-consuming and costly exercise as well as potentially leading to late registration penalties and paying VAT to HMRC that often cannot be recovered from past customers.

It may be possible to agree with HMRC that a business can be exceptionally excused from VAT registration, if an exceptional transaction increased turnover above the threshold temporarily. However, once the threshold has been breached it is often difficult to persuade HMRC that this was a one-off. If you are undertaking an unusual transaction that could take your business over the VAT threshold take advice in advance.

### Flat rate scheme



Many smaller businesses have taken advantage of the flat rate scheme for VAT, which is a simplification allowing them to pay VAT at a fixed percentage of turnover for their trade, whilst still collecting VAT from customers.

That percentage has a built in allowance for VAT on costs based on the type of business carried out. Use of the FRS can reduce administrative costs for businesses and, in some cases, also gives a VAT benefit. As part of the scheme, businesses receive a 1% discount in their first year of VAT registration. Businesses sometimes misinterpret this to mean that they receive the discount in their first year of using the flat rate scheme. It is important to interpret and apply the rules correctly, particularly when beginning to use the scheme. Businesses should ensure they choose the correct rate and that this rate is applied to the VAT inclusive turnover figure.

All businesses should consider regularly whether the scheme still benefits them. Are they operating in a different sector and need to change their flat rate percentage? Or have they exceeded the annual turnover under which the FRS can be used, currently £230,000?

# Annual Investment Allowances

## Don't miss out

The AIA (currently set at £1m per year), is the amount of capital expenditure on qualifying plant & machinery that a company can claim 100% Capital Allowances on, giving full tax relief in the year of purchase.



Expenditure that doesn't qualify for AIA gains relief much more slowly, using writing down allowances at the rate of either 18% or 6% per annum (depending on the type of expenditure) on a reducing balance basis.

The £1m limit was a temporary measure, designed to assist with economic stimulus. Given the virus crisis, it is possible that the Government will choose to extend this but, at the time of writing, there have been no announcements.

As it stands currently, the AIA is due to fall to its "normal" level of £200,000 from 1 January 2021. Businesses may therefore like to consider if there are any plant and machinery purchases that should be brought forward in order to gain full relief.

Businesses without a 31 December year end should bear in mind that they will receive a time apportioned AIA, so a company with a 31 March 2021 year end will receive £800,000 ( $£1,000,000 \times 9/12$  plus  $£200,000 \times 3/12$ ). However, the period after 31 December is restricted to the time apportioned part of the £200,000, so be extra careful; in our example, the maximum qualifying expenditure in the period 1 January 2021 to 31 March 2021 would be £50,000 (being  $£200,000 \times 3/12$ ).

And remember, AIA may also have to be shared across a group, or with other related companies.

## Entrepreneurs' Relief and business exits

Entrepreneurs' Relief, or rather Business Asset Disposal Relief (BADR) as it is now known, has seemingly long been the focus of government scrutiny, having been labelled "expensive, ineffective and unfair" and failing to fulfil its purpose of encouraging investment and growth of new business.



To tackle this perception, the Spring Budget saw the Chancellor cut the lifetime limit dramatically for disposals made on or after 11 March 2020, from £10 million to just £1 million. Yet BADR is not out of the spotlight yet, with its future still the subject of much speculation, particularly given the likelihood of impending tax increases in the wake of the current Coronavirus pandemic.

However, for as long as BADR does exist, it is a relief worth having, taxing qualifying gains up to the lifetime limit at just 10%. With a two year qualifying period, either up to the date of the disposal or the date of cessation of your business, if you are planning an exit in the not too distant future, it is important to ensure that your business ownership is structured so as to make certain the qualifying criteria are met.

If you run your business through a limited company, in order for a sale of shares to qualify for BADR, the company must either be trading or be the holding company of a trading group; you must be an employee or officer of the company; and the company must be your "personal company". This means that you must hold 5% of the company's ordinary share capital and by virtue of that holding, 5% of the voting rights, AND an entitlement to at least 5% of either:

- Profits available for distribution and distributable assets available on a winding-up; OR
- Proceeds in an eventual sale.

But what if a trade sale of your business is just not a realistic prospect in the current climate? With the uncertainty of COVID-19 causing disruption to world markets and

the Corporate Finance sector experiencing unprecedented difficulties, is there an alternative to finding a buyer for your business on the open market? At Ensors, we have seen increased interest in Management Buyouts (MBOs) and Employee Ownership Trusts (EOTs) as a controlled method of exit where companies already have a strong management team of key individuals in place below the current business owners.

EOTs in particular, with their headline grabbing tax breaks and a cultural shift toward the 'John Lewis model' of focussing on the long-term benefit of employees, have become increasingly popular as a way of ensuring the right succession is in place.

If the qualifying criteria are met, a disposal of a controlling interest in a company to an EOT can be made completely free of Capital Gains Tax, plus once the company is owned by an EOT, it is able to pay 'income-tax' free bonuses to employees of up to £3,600 per year each.

If you are thinking about an exit from your business and wish to ensure that its long-term future is secured, please speak to a member of the Business and Corporate Tax Team to discuss the options available to you.

# The benefit of the **EMPLOYEE** SHARE SCHEME in difficult times



Employee share schemes can be an effective means of incentivising staff for the long term; giving them a stake in the future of the business so that they benefit if it does well.

Since the crisis began in March, we have seen a surge in share schemes of various sorts, but why is this the case, and what have companies been implementing?

An employee share scheme is really all about giving the employee a share in the future success of the business. By having either real shares or share options in the company, the employee knows that if the company does well, then there should be an opportunity for them to convert that into cash, thereby benefitting from the growth of the company. This can lead to greater motivation as the employee's interests are now more closely aligned with those of the business owners.

Traditionally, it is perhaps most common to see share options (a right to acquire shares at a future time at a price fixed today) being granted to employees of fast growing companies which expect a sale within the next few years, perhaps by way of a trade sale or venture capital backed deal. In this context, the Enterprise Management Incentive (EMI) tax

advantaged share option scheme is often ideal, as it allows any growth in value after the grant of the share option to accrue free of income tax and NIC, with just Capital Gains Tax on the sale of the shares; Business Asset Disposal Relief (ER) would normally be available.

However, more stable businesses still use EMI share options. Now more than ever, with cashflow tight, businesses have been looking to incentivise their key team of people without paying them substantial salaries and bonuses right now. EMI can still work here, as long as we can foresee a growth in value in the company's shares; this might just be down to a recovery from the current pressures of the pandemic. Of course, employees must be able to foresee being allowed to acquire and sell their shares, and if a future company sale is less likely then they may, for example, need reassurance that they would be able to exercise and sell on a future retirement.

Through the pandemic we have also seen companies look to give certain employees the ownership of real shares. These can give something more tangible to the employee, especially if the company pays dividends (which would only be paid on real shares and not on options). However, there are commercial complications of having minority shareholders, and real shares carry an upfront income tax charge unless the employee pays full market value; again, if company value has been depressed by the pandemic, now can be an efficient moment to get real shares to employees.

Share schemes need to be designed carefully for the individual company circumstances. However, where properly implemented, they can be a great method of incentivising key staff, with tax advantages and low cash costs.

Articles contributed by



**Robert Leggett**

Tax Partner

[robert.leggett@ensors.co.uk](mailto:robert.leggett@ensors.co.uk)



**Katie Varney**

Tax Partner

[katie.varney@ensors.co.uk](mailto:katie.varney@ensors.co.uk)

# UPDATE FOR LANDLORDS

## Tax planning in uncertain times



**Matt Herd**  
Tax Director  
[matt.herd@ensors.co.uk](mailto:matt.herd@ensors.co.uk)

Since the outbreak of the Coronavirus pandemic, the Government has introduced a large variety of measures to help support individuals and businesses respond to the resultant financial impacts.

Numerous grants, loan arrangements and payment deferral schemes have been introduced with additional measures being announced in response to changing lockdown restrictions. Much of the Government support for businesses has been targeted towards specific sectors and, to date, no targeted support has been introduced to assist residential property landlords who are adversely affected by the pandemic. However, there are some general financial support measures available and some pertinent tax planning opportunities that may be appropriate.

### Coronavirus support

- Landlords may be able to apply to their mortgage provider for a 3-month payment holiday.
- Those adversely affected by coronavirus were able to defer their July 2020 self-assessment tax payment by 6 months to 31 January 2021.

HMRC have now announced that where the total payment due on 31 January 2021 does not exceed £30,000, taxpayers can apply for an online instalment plan to pay the liability monthly over a period of up to 12 months. However, interest charges will still apply and the plan needs to be set up no later than 60 days after the tax due date.

### Tax planning

- The phased removal of marginal rate tax relief on mortgage interest and other finance charges ended on 5 April 2020. Qualifying expenditure will now only receive basic rate tax relief. Landlords should therefore take account of the tax relief available when making decisions in relation to new or ongoing funding. It is also important to consider the adverse effect that these changes can have on other allowances including Child Benefit entitlement.
- Landlords will need to review the level of their costs on an annual basis to establish whether they can reduce their overall tax liability by electing to use the £1,000 property allowance.
- Landlords contemplating buying additional properties may be able to take advantage of the temporary reduction in the rates of SDLT for properties purchased on or before 31 March 2021.
- Landlords who are considering transferring properties to others (including trusts) may wish to consider whether now would be an appropriate time to implement such planning. It may be that the current market value and therefore associated tax liabilities are lower.
- In appropriate circumstances, the transfer of property ownership (or a transfer into joint names) can achieve a significant reduction in the levels of Income Tax due on profits and Capital Gains Tax due on sales. Similarly, married couples should review the split of the underlying beneficial ownership of jointly owned property.
- Landlords should be aware that with effect from 6 April 2020, sales of UK residential property need to be reported to HMRC within 30 days and the associated Capital Gains Tax paid.
- Finally, landlords who are likely to see their profits reduced, may wish to consider their overall financial affairs to ensure that any tax savings that can be achieved due to a reduction in their marginal rates of tax are actioned.

---

# Q&A with Matt Herd

Matt Herd joined Ensors in January 2020 as a Tax Director working across the Cambridgeshire offices. With 23 years' experience under his belt, Matt assists individuals and business owners with the whole range of personal taxation matters including supporting business owners with the structuring of their retirement and business succession plans.

## **Why did you choose to go into tax as a profession?**

I would love to say that I wanted to work in tax from a young age. The reality is that it became increasingly apparent that I wasn't cut out to be a stunt man (childhood ambition). So when my mum cut out a job advert from the local paper for a "Tax Trainee" I decided to send in my CV.

## **What is the most unusual task you have been asked to carry out at work?**

This is, without doubt, to help set a client's bed side clock. She was an elderly client who had been unable to change it herself when the clocks went forwards.

## **If you had to do something different and money and skill were no object, what would you do?**

If I had to have a different job and money, skill (and age!) were no barrier, I would like to star in martial art movies. Perhaps a cross between Bruce Lee and Jason Statham.

## **If you could invite three people to dinner, who would they be and why?**

Top of the list would have to be Bruce Lee because I would love to get to see a display of his martial arts moves in real life. Then, I think, Lee Harvey Oswald – just to try and find out the truth! And finally, Robert Downey Jr – because he would bring the fun!

## **What's your favourite TV programme?**

Continuing with the martial arts theme and having watched the original Karate Kid films more times as a child than I care to admit, I really enjoyed Cobra Kai. I've re-watched seasons one and two now that they're available on Netflix and can't wait for season three to come out next year.



---

# CARS OR VANS?

## That is the question

During the summer a very long running case was finally decided by the Court of Appeal over whether certain vehicles were cars or vans for income tax purposes.



**Yvonne Graham**  
Tax Manager  
[yvonne.graham@ensors.co.uk](mailto:yvonne.graham@ensors.co.uk)

The rules for taxing company cars and company vans generally give a much lower tax charge for those vehicles which are vans. For benefit in kind purposes a van needs to be a 'goods vehicle... primarily suited for the conveyance of goods or burden'.

This particular case looked at three different types of modified vehicle, each based on a panel van design, but with a second row of seats behind the driver (crew-cab vehicles).

The Court of Appeal decided in this case that since the vehicles in question were multi-purpose and equally capable of carrying goods or people, they were not primarily suited to the carrying of goods, and therefore failed to qualify as vans.

The view was that 'primarily' should be taken literally, so that the vehicles need to be clearly more suitable for goods than for people.

This decision was very much in line with HMRC's own guidance as set out in their manuals. This states that a van must be primarily suited for carrying goods, and where there are side windows behind the driver and the vehicle can be fitted with additional seating it is unlikely to qualify as a van.

Where there is any doubt about any vehicle, we would advise you to review their status now, given this latest clarification of HMRC's stance.



For a FREE consultation with any of the Ensors team contact Jane Newley on 01473 220022 or [jane.newley@ensors.co.uk](mailto:jane.newley@ensors.co.uk)

For further information on any of the articles in this newsletter and contact details please visit [www.ensors.co.uk](http://www.ensors.co.uk)

This newsletter seeks to address general business and financial issues and we have taken due care in its preparation. Ensors cannot accept responsibility for loss incurred by any person, company or entity as a result of acting, or failing to act, on any material in this publication. Specialist advice should always be sought in relation to your particular circumstances. Ensors is the trading name of Ensors Accountants LLP and is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work. Mark Upton and David Scrivener are licensed to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales. Ensors is not authorised under the Financial Services and Markets Act 2000 but we are able in certain circumstances to offer a limited range of investment services to clients because we are members of the ICAEW. We can provide these investment services if they are an incidental part of the professional services we have been engaged to provide. If you do not wish to receive this newsletter in the future, please contact Jane Newley on 01473 220022 or email [jane.newley@ensors.co.uk](mailto:jane.newley@ensors.co.uk)

### ENSORS OFFICES

BURY ST EDMUNDS | CAMBRIDGE | HUNTINGDON | IPSWICH | LONDON | SAXMUNDHAM



[www.ensors.co.uk](http://www.ensors.co.uk)