Hazel Cooch FCCA

Accounting and Tax Services

Newsletter - July 2019

Hello and welcome to another issue of my mini newsletter.

A nation of small businesses?

The growth in new businesses created since 2007 is higher in the UK than in any other OECD country. A study undertaken by the Institute for Fiscal Studies has analysed HMRC tax records and found there were around 4.9 million self-employed people in 2015/16, an increase of about 25% compared to 15 years earlier. Additionally there are 1.8 million owner managed companies which is double the number in 2000/01.

Most self-employed people (approx 4.1m) are sole traders as opposed to partners. In 2014/15 around 650,000 people started new businesses, however 580,000 closed their businesses. Only around 10% of those closures were due to incorporation into a Limited Company so the remainder have ceased trading. Around 20% of sole traders close within a year and 60% within 5 years.

The average age for start ups is 37 and most self-employed people have been employees first. The majority of closures are younger or older people, with the latter probably retiring.

The average sole trader's profit (as reported to HMRC) is only just over £12,000 with 60% of sole traders making a profit of less than £10,000. Only around 4% of sole traders have profits above £40,000 whilst 7% report a loss. Most don't employ staff and only about a quarter invest in capital equipment.
An analysis of the industries may help explain this - 25% are based in construction and so will include subcontractor labourers. A further 10% are in business services and 9% in domestic services. It may also be because they are "hobby businesses" and it should be noted that 25% of sole traders also have employment income.

In conclusion many people try self-employment, but there is quite a churn. Some traders do come back with a new business after a gap. Generally partners and owner managed businesses are more profitable but this is probably because they are larger and less likely to operate in the "gig" economy. The report also does not consider life style choices - for example many parents opt for self-employment, at least for a while, so they can have a more flexible life/work balance and spend time with younger children.

Self-assessment tax return penalties

HMRC are fining increasing numbers of people for late self-assessment filing and late tax payments. Last year these fines amounted to £860 million and over 330,000 people were fined. A large part of this increase is attributed to the value of penalties imposed by HMRC for late tax payments as more people struggle to make tax payments on time. HMRC are also rejecting more appeals with only 14% of fines cancelled last year.

As a recap there are two sorts of penalties:

1 Late filing of the self-assessment tax return

Immediate £100 fine for filing after due date (usually 31 January)
After 3 months - £10 per day for up to 90 days
After 6 months - greater of 5% of tax due or £300
After 12 months - greater of 5% of tax due or £300

DON'T FORGET
Next tax
instalment is due
on 31 July 2019

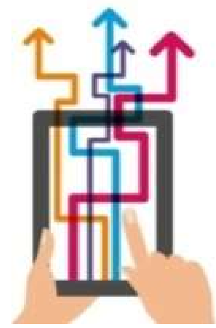
2. Late payment of the tax due (this is in addition to interest which is also charged)
   After 30 days late in paying - 5% of all the outstanding tax.
   At six months - 5% of all the tax due at that date.
   At 12 months - 5% of all the tax due at that date.

All the above are cumulative, and penalties for late filing are payable even if no tax is due! Penalties can also be higher if HMRC believe you are deliberately withholding information.

What can you do?

1. Budget throughout the year and keep enough cash aside to pay the tax on time
2. If you really can't pay contact HMRC as soon as possible, explain why and negotiate a sensible payment plan to pay tax due in instalments - more information can be found here https://www.gov.uk/difficulties-paying-hmrc
3. Keep your financial records organised (where appropriate throughout the year) so the information is easily available to prepare and file the tax return, including any accounts if needed, promptly.

Making Tax Digital (MTD) for VAT - record keeping



MTD is now live for relevant businesses (turnover over £85,000) and the first VAT returns have been filed. At the moment there is no extra information filed but this will probably change in the future so you should ensure the actual record keeping is compliant with the MTD rules.

For both sales and purchases you need to record the tax point (usually the date) and the value of the supply.

For sales you also need to record the VAT rate charged and for each purchase the amount of input tax.

Note that this information is required for each supply, not each invoice. That means that you can no longer just record invoice totals where there is more than one supply on an invoice.

However there are a few relaxations to these rules including the following:

1. Where there is more than one supply on an invoice you can record a single total if the supplies are at the same rate and in the same period
2. Retail schemes can record daily gross takings
3. Flat rate scheme users don't have to record purchases unless capital goods on which they claim input VAT
4. Petty cash purchases can be batched where each expense is under £50 and each batch under £500

Full details of the record keeping requirements are in VAT Notice 700/22. HMRC have said they will take a light touch to record keeping penalties for the first year as long as you do your best to comply.

I would recommend that the easiest way to ensure compliance is to invest in a suitable accounting software package that has MTD filing. This will also help with other aspects of the business such as debtors control and timely management accounts information.

As always I welcome any comments and please do get in touch if I can help with anything mentioned above,

Email:	hazel@hac-accountant.co.uk
Phone:	01628-471426
Mobile:	07939-590618
Web:	www.hac-accountant.co.uk

ACCA

- Self assessment returns
- Business accounts
- Corporation tax returns
- VAT and payroll
- Tax planning
- HMRC investigations