Multiple Businesses and VAT registration

Some business owners may consider segregating parts of their businesses in order to prevent the need to register for VAT. In limited companies that would mean setting up separate limited companies or for a sole trader establishing separate trades.

The threshold for registering for VAT in the current year is £85,000 for each individual business in a rolling 12 month period and many businesses see being below this threshold as a potential advantage against their competitors.

However HM Revenue and Customs review these separations very carefully to see if the separation is artificial and an attempt to avoid VAT registration.

HMRC will look at the supplies being made by an individual trading as a sole trader who makes some supplies as a “partnership” potentially using a sleeping partner or may set up a limited company to make some supplies. HMRC will also review the intention of the business when setting up their business to see if it was the business owner’s intention to operate their business activities as separate entities and if there was a genuine attempt to separate business activities.

HMRC accept a spouse or civil partner can support their husband or wife in their business capacity as a husband or wife but can still run their own separate business, for example, a sandwich shop and an electrician.

However, if the businesses are:

- Functionally linked, for example a public house with wet sales and the catering,
- Geographically linked, for example a chain of dry cleaners,
- Temporally linked, for example a bridal shop with an individual responsible for hats and bags on a Tuesday and Thursday and another individual responsible for the dresses on a Friday and Saturday,

and the businesses cannot demonstrate that they are acting as single separate entities then HMRC can disaggregate or add together the turnover of the business and conclude that the 2 or more businesses are in fact one and the same.

The key things HMRC look for when assessing if a business is a single entity or multiple separate businesses are: the sharing of equipment, buildings/offices, if the businesses use the same bank account or they are financially dependent on each other, and if their advertising and their staff are the same.

Top tip:

The potential for business disaggregation is particularly relevant with the commencement of digital filing of VAT returns. We will be pleased to review your business structure and whether your businesses are connected or are separate entities. We will give you support through the process of starting to file VAT returns digitally.

We are here to help

We can help you by ensuring that you’re aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

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Claim tax relief on your wedding dress

Spring is in the air and traditionally this is the time of year when couples marry.

Possibly the most important item on the wedding shopping list is the bride’s gown. According to Bride Magazine the average cost of a wedding dress in the UK in 2018 was £1,378, with a particular royal wedding dress reported to be in the £100,000 price range.

After the day is over and the honeymoon is a distant memory, what is to be done with the dress? For sentimental reasons the dress can be popped into the attic to remain for many years or the more financially savvy bride may want to benefit a charity whilst gaining some tax relief.

Tax relief is available at the highest tax rate paid by the individual for gifts made in cash to charities but not on gifts of personal belongings. However, if the charity shop acts as a selling agent and gains the owner’s permission to keep some or all of the sale proceeds - the cash proceeds are available to benefit from gift aid.

When gifting a personal item, for example a wedding dress (but it can be any personal item), to a charity shop, ensure the shop is acting as a selling agent and sign a gift aid declaration to confirm that income or capital gains tax will be paid in the tax year which is equal to the amount of tax relief the charity will reclaim.

The charity is required to keep a record of the amounts received for each item they sell and the charity should send an email to the individual at the end of the tax year stating the amount raised from the sale of their items. The individual should ignore this email if they wish the charity to retain the full proceeds but will need this letter or email to claim higher rate tax relief on the amount of the gift.

The tax relief at the individual’s highest rate will be given once the amount is shown on the individual’s self-assessment tax return or by way of an amendment to the individual’s PAYE tax code.

For example

Kate takes her wedding dress to a charity shop. The shop is clear that they are acting as a selling agency and sell the dress to Megan for £1,000. The shop email Kate to tell her of the sale proceeds and she ignores the email for 21 days. The shop, has by default, obtained permission to keep the cash.

With the gift aid declaration already in place for Kate they claim gift aid of £250 which would make the gross cash gift if Kate was a basic rate taxpayer £1,250 (£1.250 x 20% = £1,000). But Kate is a 40% taxpayer so she can claim tax relief for herself of £250 through her self-assessment tax return.

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Gifts out of Normal Income

When a gift is made, the person giving (the donor) has to survive 7 years from the date of the gift to prevent some, or all, of the gift being brought back into the estate for Inheritance Tax (IHT) purposes. There is, however, an allowance for gifts made as part of your normal expenditure from your income.

Any regular gifts you make out of your after-tax income, not including your capital, are exempt from Inheritance Tax. These gifts will only qualify if you have enough income left after making them to maintain your normal lifestyle.

These include:

- monthly or other regular payments to someone;
- regular gifts for Christmas and birthdays, or wedding/civil partnership anniversaries; and/or
- regular premiums on a life insurance policy - for you or someone else

You can also make exempt maintenance payments to:

- your husband, wife or civil partner;
- your ex-spouse or former civil partner;
- relatives who are dependent on you because of old age or infirmity; and/or
- your children, including adopted children and step-children, who are under 18 or in full-time education

If you make gifts out of income as part of your normal expenditure, you should keep a record of your after-tax income. This should show the gifts are regular and you have enough income to cover them and your usual day-to-day expenditure without having to draw on your capital. If the gifts are in cash it is important that regularity is established; an easier way of doing this is to pay a bill or a series of bills for the person to whom the gift is to be made (the donee).

Because an intention to make regular gifts out of normal income can be established by written evidence and supported by other records, such as receipts and bank statements, then even if a donor does not survive for 7 years, the executors of the estate will be able to claim for the payments to be removed from the estate, thus generating substantial IHT savings.

Gaps in NI Contributions

Research shows that 55% of British workers will take a career break of at least one year during their working lives and up to 61% of women (who are more likely to take time off for childcare) will lose out on pay following the birth of their first child. Taking time off work, for any reason, creates NI gaps in the individual's State Pension credit record.

In 2016 the minimum requirement for entitlement to a full State Pension rose from 30 years contributions to 35 years contributions, with those most affected being unaware of the need to maintain a full NI contribution record.

Credits for the Gaps
It is possible to obtain credits for time taken off to raise children under 12 years of age but in order to obtain these credits, the family must have registered for Child Benefit! When someone with children earns over £50,000 their entitlement to Child Benefit is reduced and when earnings are over £60,000 there is no entitlement to Child Benefit, so it may seem easier not to bother claiming Child Benefit to prevent an overpayment being created and a repayment necessary.

But there's the problem, in a couple where one parent earns £60,000 or more and one parent is unpaid, remaining at home raising children, they have no entitlement to receive Child Benefit but if they don't claim the stay at home parent loses their NI credits!

True, it is tidier and less effort if the Child Benefit is simply unclaimed, however here are a few other considerations:-

Trading Losses or Reduction in Income
Child Benefit can only be back dated by three months, so following a change in circumstances, for example a drop in income, the full entitlement of Child Benefit might not be paid.

Cash Flow Advantage
There's also the cash flow advantage to be considered. If claimed, Child Benefit is in the hands of the couple for the whole of the tax year and the High Income Child Benefit Charge would not be due until the following January.

Top tip:

Other circumstances and events affect the amount of State Pension an individual will receive. It's never too later or early to review entitlement to a State Pension.

At a Loss

No trading business wants to make a loss but if a loss is made it is important to not only consider what to do with the loss but also ensure the loss is correctly recorded.

Losses incurred in the normal course of a business can be

- used in the year of the loss, against total income and gains,
- used in the previous year, against total income and gains,
- carried forward and used against future trading income from the same trade.

Losses incurred during the first four years of trading can be used against the

- total income in the 3 years preceding the loss. On a first in first out (FIFO) basis.

Losses incurred in the final year of trading can be used against the

- trading income of the 3 preceding years on a last in first out (LIFO) basis.

It is apparent that a loss register will help to keep track of losses, especially if they occur in more than one year.

Class 4 NIC
But when the best option for using the loss is looked at it is also important to consider the National Insurance position.

Different types of income attract different types of NI, for example Class 1 NI is payable on employment income and gains do not attract any NI at all. So in a set off scenario where the trading loss is set off against other income or gains it is possible that the balance of the loss will be different for Income Tax purposes than for NI purposes.

Top tip:

We will advise you of the most tax and NI efficient method of utilising any loss made but please ask us to show you how the loss is being used and what balances are available for both Income Tax and NI purposes.

Shares of Negligible Value

It is possible to make a claim to recognise the loss of value of shares when their value is next to nothing or negligible.

The loss can then be set against other chargeable gains in the year or, in some circumstances, be set against income and so reduce your tax liability. If setting the loss against total income the amount is limited to the lower of £50,000 or 25% of your total income. The loss can be claimed in the current year or the preceding tax year, giving an amount of flexibility.

It is also possible to claim the loss if an asset has been entirely lost, destroyed, dissipated or extinguished but if compensation has been paid, for example, an insurance or similar pay-out we will be happy to check if a claim is still possible or if any potential capital gains tax charge may arise.