

# Small Business Insight

April 2019

Hawsons Chartered Accountants



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# Introduction



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## Welcome to the Small Business Newsletter

The last few months have seen a lot of things happening that affect the small business, and the next few months are going to see plenty more challenges in the pipeline.

The end of the tax year gives employees a chance to take stock of their tax affairs and although many assume that their income tax is dealt with correctly under the PAYE process, there is scope to claim income tax back on certain work related expenses. In this issue we take a look at where these can be reclaimed by an employee.

Philip Hammond delivered a fairly low key Spring Statement last month, but there were a handful of measures that will affect small businesses and we summarise these.

1 April saw the commencement of Making Tax Digital for VAT. We looked at the challenges of this in earlier issues, and with a new method of delivering information to HMRC, the likelihood of errors creeping into returns will almost certainly increase. Our VAT expert, Tony Nickson gives an outline of the top ten errors encountered during VAT inspections.

Looking forward to October, those businesses involved in the construction sector may be affected by changes to the way that VAT is accounted for on supplies made by subcontractors. Again, Tony Nickson gives an overview of these new measures.

As ever, please get in touch with us if any of these subjects affect your business – we are always happy to help.

## Hawsons are specialist Small Business Accountants

Our Business Services Department is dedicated to helping with smaller businesses. We help businesses of all forms, including sole traders, partnerships, limited companies and LLP's.

Starting up a new business is a challenging process and there are many aspects a small business owner must consider. We have a proven track record in helping small businesses get off the ground and continue to grow. Our clients choose Hawsons because we understand their needs and find them the right solutions, the right time. Our small business specialists can help in all aspects of setting up and running your business, providing advice in Sheffield, Doncaster and Northampton.

**For more information on our small business expertise, including the services we offer and our experience, please visit: [www.hawsons.co.uk/business-services](http://www.hawsons.co.uk/business-services)**



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# HMRC reminder to employees to claim their tax deductible expenses

HMRC is reminding employees that they may be able to claim a tax rebate on their work related expenses. HMRC estimate that millions of employees, particularly those working in the service industry, could be entitled to a tax refund. Workers, including nurses, hairdressers, construction workers and those working in retail and food sectors, may be able to claim tax rebates.

Individuals in these types of roles sometimes have to pay for work-related expenses including car mileage, replacing or repairing small tools, or maintaining branded uniforms.

Where these types of expenses are incurred, employees may be entitled to claim a tax refund. HMRC is advising individuals to go directly to GOV.UK to check if they can claim extra cash back. HMRC advise taxpayers to log in to their Personal Tax Account to claim their tax relief online and that approved claims should be refunded within three weeks.

Financial Secretary to the Treasury, Mel Stride MP, said: "We know what a difference tax relief can make to hard-working customers, especially at this time of year. HMRC is keen to make sure customers get all the relief they're entitled to, by using the online service. Tax relief isn't available for all employment expenses, so the online Check If You Can Claim tool is very helpful – then if your claim is approved, your full tax relief will be paid directly into your bank account"

The majority of claims are for repairing or replacing tools and branded uniforms, professional subscriptions and mileage. Healthcare workers, people working in food and retail, and those in the construction industry are among the top professions to claim from HMRC.

HMRC is advising that taxpayers may be able to claim tax relief on the cost of:

- repairing or replacing small tools needed to do their job (for example, scissors or an electric drill)
- cleaning, repairing or replacing specialist clothing (for example, a branded uniform or safety boots)
- business mileage (not commuting)
- travel and overnight expenses
- professional fees and subscriptions.



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# How will the VAT reverse charge for construction businesses work?

**A domestic reverse charge will be introduced from 1 October 2019 to tackle VAT fraud in the construction industry. Tony Nickson, VAT Consultant at Hawsons, explains what this will mean for businesses.**

## What is a reverse charge?

In a nutshell the reverse charge is where the customer charges themselves VAT, rather than the supplier charging VAT. This means there is no opportunity for the supplier to disappear without paying the VAT to HMRC.

## When will this come into effect?

1 October 2019

## Who will be affected?

Businesses involved in buying or selling specific construction services.

## What types of construction services will be covered by the reverse charge?

It will apply to construction services that are currently covered by the Construction Industry Scheme, specifically Business to Business (B2B) supplies between VAT registered businesses where the recipient then makes an onward supply of the same construction services.

## What supplies are excluded from the reverse charge?

It will not apply where:

- Services are applied to the end user, such as the property owner, or directly to a main contractor who sells a newly completed building to the customer
- The recipient makes onward supplies of those construction services to a connected company
- The supplier and recipient are landlord and tenant or vice versa, or
- The supplies are zero-rated.

The Government's original proposal stated that the reverse charge would apply to 'labour only' supplies of construction services. However, HMRC's latest publications state that it will also cover the provision of construction services that include materials. This will bring many more construction businesses into the reverse charge than first thought.

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### **How will it work?**

The introduction of a reverse charge will not change the liability of the supply of the specified services. It will just change the way in which the VAT on those supplies is accounted for- rather than the supplier charging and accounting for the VAT, the recipient of those supplies will account for the VAT. Only supplies made on, or after 1 October 2019 will apply. This will include goods supplied with those services.

### **How should contractors prepare for the change?**

Businesses that supply construction services should identify instances where they supply services to other businesses in the construction sector (rather than to a consumer of those services) and determine whether the services are included within the list of specified service. Businesses that are caught by this will from October 2019 no longer need to charge VAT on these services as the recipient will charge themselves VAT.

### **How Hawsons can help**

If you have any concerns relating to the introduction of the reverse charge or any other aspect of your VAT affairs, please get in touch with Tony Nickson or your usual Hawsons contact.

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# Spring Statement 2019: The Impact on SME's

UK Chancellor Philip Hammond announced the Spring Statement 2019 on Wednesday 13 March, and there were some key points that SME will want to know about – from late payment plans to apprenticeships:

## Late Payments

The chancellor announces plans to deal with late payments as it is reported that up to 80% of small business suffer due to late payments. The Chancellor announced that in order to tackle this issue, large companies will need an audit committee, led by a non-executive director, to report on payment practices when dealing with small businesses in their annual accounts.

## Energy bills

The Chancellor pledged to help small business reduce their energy bills and cut their carbon emissions. The government will do this by calling for evidence on a business energy efficient scheme to help understand how to support investments energy efficiency measures.

## Apprenticeships

In his speech, Hammond recognised the difficulty the Apprenticeship Levy places on small businesses wanting to take on an apprentice. He therefore promised £80 million in order to aid three million new apprenticeships to begin by 2020.

The changes also include reducing the amount SMEs are required to pay towards an apprentices' training by half, from 10% to 5%.

## Making Tax Digital

Although there were calls from the British Chamber of Commerce to postpone Making Tax Digital, Phillip Hammond stated that the first phase will still have come into effect from 1 April 2019. However, HMRC have stated that they will be lenient with regards to penalties levied on those businesses that don't comply during the transition period. Phillip Hammond said: "Where businesses are doing their best to comply, no filing or record keeping penalties will be issued."





# Top 10 Errors at VAT Inspections

VAT inspections used to be a fairly regular occurrence for VAT registered business owners and were often viewed as a terrifying and potentially costly experience. Whilst the regularity of VAT inspections has decreased significantly over the past 5 to 10 years, due to a more targeted and risk based approach by HMRC, the experience remains one that most businesses dread. However, this shouldn't be the case provided the business has made every effort to be VAT compliant and has maintained its financial records in line with legislative requirements.

Having said this, even the most diligent business operator can make a mistake in their accounting records which might result in a VAT officer issuing an assessment for under paid or over claimed VAT following a routine VAT inspection. The most common errors which might result in an assessment are outlined here, though this list is not exhaustive!

## 1. VAT on fuel

Many businesses reclaim VAT on fuel purchased by directors or partners and employees of the business, but make the mistake of not restricting the VAT claimed to fuel used exclusively for business purposes. HMRC allow VAT to be claimed on fuel used by the business, but will expect to see detailed mileage records to support these claims or, where this is too onerous to maintain, expect the business to pay a corresponding scale charge as output tax, to account for the private use element of the fuel purchased.

## 2. VAT on Motor Cars

Similar to the treatment of fuel, HMRC will disallow VAT recovery on the purchase of a car for use in the business, unless it can be demonstrated that the car is used exclusively for business purposes e.g. a driving school car or a taxi. In some cases, a business may purchase a car as a pool car, for use by all employees. VAT can only be reclaimed where it can be demonstrated that the strict conditions around pool cars are met, primarily that the car remains at the business premises overnight and is not allocated to one individual.

Another common error is where 100% of the VAT charged on cars leased for business use is recovered as input tax. Only 50% of the VAT charged on cars leased for business use is recoverable; this is often stated on the supplier's invoice but may still be overlooked by business users.

## 3. Not charging VAT on non-standard supplies

Businesses are usually good at charging VAT correctly on their core business supplies. However, as soon as something slightly out of the ordinary, or less regular, occurs then these supplies can often be overlooked. In many cases businesses might believe VAT does not apply. Examples included inter-company management charges, supplies made to staff, barter transactions (where no money changes hands) and recharges of costs to third parties.

## 4. Receipt of reverse charge services

Today's business place is often worldwide, with UK businesses receiving supplies of services from suppliers based overseas. More often than not, invoices received from overseas businesses will not include a charge to UK VAT.

Subject to limited exceptions, this is correct and UK VAT should instead be accounted for on the value of those supplies by the UK business recipient of the services under the reverse charge procedure.

Many businesses make the mistake of thinking that because no VAT was charged on the supply, this should be treated as a zero rated purchase. However, the output tax that would be due, had the supply be received from a UK supplier, should be declared by the recipient on the same VAT return as the corresponding input tax would be claimed. For many businesses this accounting procedure will have no net impact on their VAT return, but for businesses that are partially exempt, correctly recording receipt of reverse charge services can result in an input tax restriction.

## 5. Recovering VAT on entertainment

HMRC have always looked closely at business entertainment to ensure that input tax is not claimed in relation to this expense. Many businesses do not appreciate that taking a client, or potential client, to lunch is considered business entertaining, with many arguing that it is simply a marketing opportunity. However, any form of entertainment remains blocked from input tax recovery and some business owners continue to be caught out.

## 6. Aged Creditors

Many businesses are familiar with the bad debt rules as they apply to output tax paid to HMRC i.e. where output tax has been accounted for on a supply made and no payment received from the customer after 6 months, the business can claim back this output tax from HMRC on the basis that the supply has become a bad debt. However, the majority fail to consider the flip side of this rule which requires the business to repay input tax to HMRC that has been recovered on invoices received from suppliers, but where payment to the supplier remains outstanding after 6 months.

## 7. Import VAT

Import VAT can be recovered by businesses subject to receipt of official documentation from HMRC to evidence the import, known as the C79 certificate, which is normally received approximately 3 weeks after the month end in which the goods were received in the UK. Many businesses make the mistake of reclaiming import VAT on receipt of invoices from shipping agents, which is only a VAT invoice for the purpose of the agents' own charges and not the import VAT.

## 8. Failing to account for VAT on deposits

Often businesses will take deposits from customers when accepting an order for goods or services, but fail to account for VAT on these payments until the balancing payment has been received. This is incorrect, as receipt of payment, in full or in part, creates a tax point for VAT purposes and VAT is due at the date payment is received, unless this is preceded by the issue of a tax invoice.

## 9. Reclaiming input tax without supporting invoices

In order to recover VAT incurred on expenses, a VAT registered business is required to retain evidence to support the expenditure in the form of a valid VAT invoice. Where no such evidence is retained, HMRC can refuse to refund the VAT claimed, or clawback VAT where it has already been claimed on a past VAT return. Where a business has mislaid a VAT invoice prior to a VAT inspection and cannot obtain a copy, in some instances HMRC may accept alternative evidence to support an input tax claim, such as bank statements showing the payments made to a supplier. However, HMRC prefer to see a VAT invoice and therefore businesses should ensure their record keeping processes are robust and complete.

## 10. VAT claimed on non-vatable items

Finally, once registered for VAT many businesses make the mistake of assuming that VAT is chargeable on everything and therefore assume that all business expenses include VAT. A common mistake is therefore recovery of VAT on air fares, train fares and taxis. Passenger transport is zero rated as are most taxi fares that will be incurred, though in some cases taxi fares will be subject to VAT, where invoices are received from a taxi firm.



Tony Nickson is a VAT Consultant at the firm. He provides practical VAT advice to a wide range of clients in numerous business sectors and advises on matters relating to sole proprietors, partnerships and corporate bodies on all VAT issues including exporting, importing or providing goods/services within the UK.

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Due to the new General Data Protection Act (GDPR), that came into force on the 25 of May 2018, we need confirmation that you are still happy to receive our updates, newsletters and events.



### What do I need to do?

Just fill in your details to confirm that you still want to receive our updates, events and newsletters. It only takes a minute, and will mean you stay in touch with us:  
<http://www.hawsons.co.uk/newsletter/>



### Anything else?

Not at all! Although...you can follow us on social media to stay even more up to date with everything that we're up to here at Hawsons.

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