

## Newsletter

### Thinking of you

Often viewed as morbid, time consuming or too expensive, writing a Will is easily overlooked. However, having a Will in place is necessary to protect you, your family and your assets.



Caroline Brearley of Bulley Davey Wealth Management provides a Will Writing Service as well as Power of Attorney documents. She is a qualified member of the Society of Will Writers and provides a straightforward service that will give you peace of mind that your affairs will be handled legally and in keeping with your wishes following your death.

For further information on how Caroline can assist please contact her on **01775 718850** or email [caroline.brearley@bulleydavey.co.uk](mailto:caroline.brearley@bulleydavey.co.uk).

### Over £5,000 raised for good causes

Bulley Davey has raised an amazing £5,900 for charities over the last twelve months including £2,830 for our chosen charity of the year Breast Cancer Care.

In raising the money the team has tackled a 10k fun run, held an annual staff quiz and dress down days and one member of the Peterborough team has even sold eggs from his chickens.

Fundraising on behalf of other charities has also taken place across the offices including Oundle team taking part in the Peterborough Fun Colour Rush in remembrance of Anna Webb, raising £750 for Sue Ryder Thorpe Hall. And the ever-popular pop-up coffee shop organised by the Wisbech team which alone raise over £1,400 for Macmillan Cancer Care.

Speaking about the fundraising, Director Mitchell Burden, said: "We're so happy to be rounding off another year of fundraising with

such an amazing total. I want to firstly say thank you to the Bulley Davey team for their efforts - whether it was getting their running shoes on, or rustling up some incredible cakes, they went the extra mile time and again.

"At Bulley Davey we believe in giving back and doing our bit for charity - Breast Cancer Care does vital work in our communities, supporting those people who have been diagnosed with breast cancer. At a time when things can be really difficult, their nurses and volunteers are there to help. The same applies to the likes of Sue Ryder Thorpe Hall and Macmillan Cancer

Support - it's been a great year of fundraising and we're looking forward to the year ahead."



# Don't lose out when disposing of your business

Entrepreneurs' Relief (ER) is a valuable tax relief for those disposing of a business. It can give access to a 10% rate of capital gains tax, subject to a £10 million lifetime limit. ER is potentially available to company shareholders, owners of unincorporated businesses and trustees. But for a claim for ER to be successful, close attention to the detail of the rules is critical - and important new conditions have recently been added.

## New ownership period

Ownership conditions apply throughout the period up to the date of disposal. Budget 2018 brought change affecting all business owners and shareholders looking to claim ER. For disposals on or after 6 April 2019, the necessary qualifying period of ownership is extended, becoming two years, rather than one. Where the claimant's business ceased, or their personal company ceased to be a trading company (or holding company of a trading group) before 29 October 2018, the one-year qualifying period still applies.

## Company shareholders and trustees

For company shareholders, and trustees who are company shareholders, there are new rules on what constitutes a 'personal company'. An individual must, throughout the relevant qualifying period:

- be a company employee or office holder
- hold at least 5% of the company's ordinary share capital and

- be able to exercise at least 5% of the voting rights and
- satisfy either the distribution test, or the proceeds test.

The conditions in the last bullet point are the new conditions added recently.

Note that for trustees who are company shareholders, the qualifying beneficiary of the trust must (had they owned the shares personally) fulfil these criteria, and pass either the distribution or proceeds test.

## Distribution test

For disposals on or after 29 October 2018, Budget 2018 introduced the requirement that an individual must satisfy the 'distribution' test. By virtue of their holding, an individual must be entitled to at least 5% of the company's profits available for distribution to 'equity holders', and 5% of the assets available for distribution to 'equity holders' in a winding up. Note that the basis is profits available to equity holders, rather than shareholders: this has wider impact.

Unfortunately, this could impact companies genuinely issuing different classes of shares - sometimes known as 'alphabet' shares - to different shareholders. As different classes of

shares have different rights, alphabet shareholders may not meet the distribution test. The existence of preference shares could also affect the outcome.

## Proceeds test

To address this, the government introduced an alternative test, based on proceeds on disposal.

For disposals on or after 29 October 2018, the individual must, in the event of a disposal of the whole of the ordinary share capital of the company, be beneficially entitled to at least 5% of the proceeds.

Here the 5% threshold is computed by reference to the market value of the company at the end of the qualifying period, but the test will need to be met throughout the two-year holding period (one year for disposals before 6 April 2019). This could mean - in situations where the new distribution tests are not met - that it would not be apparent whether ER will be available until shares are actually disposed of.

## Review now

These changes will impact many claims for ER, and we would strongly recommend that you review your eligibility for ER now.

If your current shareholding fails to qualify under the distribution test, and may not qualify under the proceeds test, your qualifying ownership period has ended. To reactivate eligibility for ER, action to change shareholding will be needed. Please do not hesitate to contact us to discuss whether you need to act to ensure ER will be available on any future disposal.



## Probate issues

A substantial increase in probate fees was planned for April 2019, but is still making its way through parliament, due to pressure of other business. The media has been quick to call this a new 'death' tax. Strictly speaking, however, this is an 'enhanced fee', rather than a tax. It would apply in England and Wales, not Scotland and Northern Ireland, which have their own procedures.

The change would replace the long-standing flat rate scheme, with its fixed fee of £155 for a solicitor's application, or £215 for a personal application. The new rules would set fees depending on the size of the estate (before inheritance tax), with no discount for applications via a solicitor. Whilst estates worth less than £50,000 would be exempt, the change would have particular impact on higher value estates.



Value of estate before inheritance tax	Fee
Up to £50,000	Nil
£50,000 to £300,000	£250
£300,000-£500,000	£750
£500,000 - £1 million	£2,500
£1 million - £1.6 million	£4,000
£1.6 million - £2 million	£5,000
Over £2 million	£6,000

While the changes are pending, there is a temporary process in place for applying for probate, and estates will not incur the higher fees if applications are lodged before the fee changes take effect. Probate registries will thus, exceptionally, accept applications for probate before HMRC has processed the necessary inheritance tax account. Applications should contain a note to say that appropriate inheritance tax forms will be submitted 'shortly'.

For more information on how we can help please contact our Estate Planning and Probate team on 01733 421909 or email us at [bdepp@bulleydavey.co.uk](mailto:bdepp@bulleydavey.co.uk)

# Digital

## Making Tax Digital for VAT: your questions answered

Making Tax Digital for VAT (MTDfV), the new regime for VAT record keeping and VAT return submission, is now live. All businesses with taxable turnover over the £85,000 VAT registration limit come within the new rules.

### What are the digital requirements?

MTDfV means keeping specified records digitally, and filing all future VAT returns direct from your digital records. If you use more than one software product, HMRC requires 'digital links' between them. There are various ways this can be done, including the use of spreadsheets. Please talk to us for advice specific to your circumstances.

Businesses already using software to keep business records will need to check with their provider that products are MTD-compliant. Some businesses will need to change record keeping systems to comply. HMRC regularly updates a list of compliant software [bit.ly/2VkaKKD](https://bit.ly/2VkaKKD). We should be happy to advise on choosing a software product, and what is meant by a 'digital link'.

### Do all VAT-registered businesses start at once?

Each business has its own start date, dependent on its VAT quarters. If your taxable turnover is above £85,000, MTDfV rules are compulsory for your first VAT return period starting on or after 1 April 2019.

The only exceptions are for businesses in the deferrals category. These adopt MTDfV rules for their first VAT return period starting on or after 1 October 2019.

### Which businesses are deferred?

These are businesses that are: part of a VAT group or VAT division, based overseas, trusts, not for profit organisations not set up as a company, local authorities, public corporations, those making payments on account, annual accounting scheme users, and those using the VAT GIANT service.

Such businesses should all have received written notification of their deferral status from HMRC.

### What if my business is a voluntary VAT registration?

If your turnover is below the VAT registration limit, you don't have to enter MTDfV. You can carry on filing as you do at present. But if you prefer, you can join MTDfV voluntarily.

### Are there penalties for getting MTDfV wrong?

MTDfV is backed up by penalties, but for the first year, HMRC will take a slightly more lenient approach on penalties for the issue of digital links between software products where businesses are genuinely trying to comply. Businesses are given until at least 31 March 2020 to put digital links in place between software products.

HMRC refers to this as a 'soft landing' penalty period. During this time, cut and paste will continue to be acceptable. Deferred businesses also have 12 months to become fully compliant here.

But there is a very important exception to this. Where VAT return information is transferred out of the accounting records into a separate program for submission to HMRC via the HMRC MTD Application Programming Interface, the transfer must be digital. This would apply, for example, where figures for the VAT return are collated in a spreadsheet and then transferred into bridging software for final submission. The transfer from spreadsheet to bridging software must use a digital link.

### Does my business have to do anything to get into MTDfV?

Yes. A business actually has to sign up to MTDfV.

This is done starting on the 'Sign up for Making Tax Digital for VAT' page on [gov.uk](https://gov.uk) [bit.ly/2SOEQV1](https://bit.ly/2SOEQV1). You will need your Government Gateway user ID and password, and VAT registration number. HMRC should confirm, by email, that your sign-up has been successful. Confirmation should be received within 72 hours. Alternatively, we can sign up for you.

For HMRC guidance, see [bit.ly/2VutWFR](https://bit.ly/2VutWFR). Note that this is updated on an ongoing basis at present.

### Are there other deadlines to watch?

Getting into MTDfV is a one-off procedure, but careful timetabling is involved.

When you have signed up for MTDfV, HMRC will expect all future VAT returns to be submitted via MTD software. It is thus very important that you have submitted any outstanding non-MTD VAT returns, and are ready to file all future returns with MTD software when you sign up.

If you currently pay VAT by direct debit, you cannot sign up in the 7 working days before or 5 working days after your VAT return is due.

In general, remember HMRC services can experience downtime. You can check whether there are problems with service availability via this link [bit.ly/2HURhgm](https://bit.ly/2HURhgm).

### Can my business quit MTDfV if turnover falls?

Once a business is in MTDfV because turnover is over the taxable limit, it stays within MTDfV - even if turnover then falls below the limit. So the obligation to keep digital records and file VAT returns with MTD-compatible software continues. Only if the business qualifies for exemption or deregisters from VAT do the MTDfV rules cease to apply.

### How we can help

As the new system takes effect, we should be delighted to advise on any aspect of MTDfV. We are also able to provide a full VAT return or book keeping service for you, including submission of VAT returns. Please do not hesitate to contact us for further advice.

# Contact Us



## Corby

Corby Enterprise Centre  
London Road  
Corby  
NN17 5EU  
Tel: (01536) 560499  
Email: BDCorby@bulleydavey.co.uk

## Hitchin

Suite 5 Alexander House  
40a Wilbury Way  
Hitchin  
SG4 0AP  
Tel: (01462) 659968  
Email: BDHitchin@bulleydavey.co.uk

## Holbeach

33 Boston Road South  
Holbeach  
Spalding  
Lincolnshire  
PE12 7LR  
Tel: (01406) 423166  
Email: BDHolbeach@bulleydavey.co.uk

## Oundle

6 North Street  
Oundle  
Peterborough  
PE8 4AL  
Tel: (01832) 273150  
Email: BDOundle@bulleydavey.co.uk

## Peterborough

4 Cyrus Way  
Cygnet Park  
Hampton  
Peterborough  
PE7 8HP  
Tel: (01733) 569494  
Email: BDPeterboro@bulleydavey.co.uk

## Spalding

1 - 4 London Road  
Spalding  
PE11 2TA  
Tel: (01775) 766633  
Email: BDSpalding@bulleydavey.co.uk

## Stamford

Willoughby House  
2 Broad Street  
Stamford  
PE9 1PB  
Tel: (01780) 769303  
Email: BDStamford@bulleydavey.co.uk

## Wisbech

9/10 The Crescent  
Wisbech  
PE13 1EH  
Tel: (01945) 464711  
Email: BDWisbech@bulleydavey.co.uk

# Keeping the VAT inspector sweet

Negotiating the VAT rules is a complex business, considerable risk attaching to errors. But one recent tax tribunal case - which the taxpayer won - made more entertaining reading than many.



Afternoon tea is one of those quintessentially British institutions, its beginnings usually traced to one of Queen Victoria's ladies in waiting. Complaining of a 'sinking feeling' mid-afternoon, the lady in question had a pot of tea and light bites brought to her dressing room. The rest, as they say, is (very British) history. So what more appropriate than to find the VAT tribunal debating the correct VAT classification of 'Raw Choc Brownies'? The business involved had treated sales as standard-rated for four years, but had since decided this was an error. It contended that the brownies should be taxed as zero-rated cakes, claiming a refund of around £300,000. HMRC claimed the brownies 'did not display enough characteristics of a cake so to qualify'. The business claimed the products 'were not sufficiently sweet to constitute confectionary'. The importance of this lies in the fact that in VAT law, cakes are generally eligible for zero rating as food items, whereas confectionary items are standard-rated.

The tribunal heard that the products were individually wrapped bars produced by cold compression of ingredients chosen to be as 'natural, unprocessed, hypoallergenic and as nutritionally

beneficial as possible'. It deliberated on competitor brownies, Battenberg Bars, whole Victoria sponge cake, Tunnock's Tea Cakes, and Cadbury's Mini Rolls amongst a host of others. Manufacturing process, unpackaged appearance, taste, texture, how and when the bars were eaten, how they were marketed and how they behaved when removed from packaging, were all considered.

The tribunal decided the nub of the matter was whether an ordinary person would conclude they had been offered a cake when presented with the brownie. Would it look out of place on a plate of cakes? 'Put alongside a slice of traditional Victoria sponge, a French Fancie and a vanilla slice ... the Products may look out of place... put alongside a plate of brownies, or ... at a cricket or sporting tea ... the Products would absolutely not stand out as unusual'. The decision paved the way for a sizeable VAT repayment.

The case reinforces the point that VAT rules on 'food' need careful attention to detail and that HMRC's interpretation of the legislation is sometimes open to challenge. We should be delighted to be of assistance with any of the technicalities of VAT. Please contact us for help keeping the VAT inspector sweet.