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## One bundle. One price. Different VAT rates

The classic example is the meal deal. The cold takeaway sandwich is zero-rated, the fizzy drink is standard-rated and the piece of confectionery is, too.



Technically, it's a mixed supply for VAT purposes. Practically, it's a headache.

What's the right way to sort out the VAT if you sell goods or services as a package or bundle? There's a single price – but the different parts of the package have different VAT liabilities. It's all about apportioning the amount the business receives – the 'consideration' – and the problem is that there's more than one way to tackle the calculation. The most common methods are based on selling price or the costs incurred in making the supplies. However it's done, the principle is that 'a fair proportion' of the total payment gets allocated to the different parts, and the business needs to be able to justify its calculations.

It's complex and HMRC knows businesses make mistakes. Concerned that not all methods of apportionment currently in use are 'fair and reasonable', it's published updated guidance. The aim is to 'encourage' apportionment based on selling price – although it's not mandatory.

We should be pleased to help you review and risk assess your policy on apportionment in the light of HMRC's latest thinking.

# newsletter

Cabourn House, Station Street, Bingham, Nottinghamshire NG13 8AQ  
Tel: 01949 838838 Fax: 01949 831174

Email: [tony@bostockwhite.com](mailto:tony@bostockwhite.com)  
[samantha@bostockwhite.com](mailto:samantha@bostockwhite.com)  
[janet@bostockwhite.com](mailto:janet@bostockwhite.com)  
[mark@bostockwhite.com](mailto:mark@bostockwhite.com)

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## WHO NEEDS TO KNOW ABOUT FULL EXPENSING?

Unveiled in the Spring Budget, it's the highlight of what the government calls its new 'capital allowances offer'. But what is full expensing? And will it benefit your business?

Full expensing can be used for expenditure incurred by companies on or after 1 April 2023 and before 1 April 2026. At present, it's temporary though the government aims to make it permanent as soon as it can. It permits a 100% claim for capital allowances on the purchase of qualifying plant and machinery, so that the cost of investment gets written off in one go, in the year of purchase. It applies to qualifying new main rate plant and machinery: in particular, plant and machinery must be new and unused; must not be a car; must not be given to the company as a gift, or bought to lease to someone else.

For certain other types of plant and machinery, long life assets, and integral features of buildings, which don't qualify for full expensing, a 50% first-year allowance can be claimed. This allowance comes with the same conditions as full expensing. Relief on the balance of expenditure comes in subsequent accounting periods and is given at the 6% rate of writing down allowances for special rate expenditure.

In practice, full expensing will impact only a limited number of businesses. It's a tax relief for companies, not unincorporated businesses or partnerships. And it's a change that matters

almost exclusively to companies planning capital expenditure over £1 million – the Annual Investment Allowance (AIA) limit.

It's not just companies that have to get to grips with new rules on capital allowances. There's change as well for unincorporated businesses and partnerships. For some years, the AIA limit has been set temporarily at £1 million. This has put pressure on businesses to get major capital expenditure into the window before the £1 million limit fell.

The good news is that the limit is now permanent. Most businesses should now be able to claim 100% first-year relief for expenditure on qualifying plant and machinery. It's worth noting in passing that tax relief on the purchase of cars doesn't come via the AIA. It's given through writing down allowances, with rates determined by CO<sub>2</sub> emissions and date of purchase. Enhanced capital allowances are available for new and unused electric cars.

When you time capital sales and purchases can be critical, so for the optimal tax outcome, we always recommend advance preparation. Together, we can help your business plan for the future. Do please get in touch.



**Inside this issue** ■ Trade and customs: latest news ■ Cryptoassets get a mention on the tax return ■ Cars, vans and benefits in kind  
■ Why basis period reform actually does matter ■ A common payroll problem: and how to avoid it ■ Your pension... then there was the Budget

# TRADE AND CUSTOMS: LATEST NEWS

BREXIT HAS MEANT CONSTANT CHANGE FOR CUSTOMS RULES. WHAT ELSE IS ROUND THE CORNER?

## NEW GOVERNMENT PLANS

The recently published Border Target Operating Model sets out changes that impact not just trade with the EU, but the rest of the world as well. Though details are being finalised, key points include a new approach to security controls and biosecurity controls. There's also greater digital emphasis, as declarations and processes come to be made via the UK Single Trade Window.

Change is phased in between 31 October 2023 and 31 October 2024, with three major milestones:

- 31 October 2023: start of health certification on medium risk goods, such as meat and dairy products and high risk food and feed of non-animal origin arriving in GB from the EU
- 31 January 2024: range of documentary, risk-based identity and physical checks apply
- 31 October 2024: safety and security declarations for EU imports.

Special rules will govern Irish and Northern Irish goods. The Border Target Operating model does not apply to imports into Northern Ireland from the EU.

## EXPORT DECLARATIONS: CHIEF CLOSES

HMRC has a new customs platform, the Customs Declaration Service (CDS). Businesses making import declarations have already made the change to CDS from the old Customs Handling of Import and Export Freight (CHIEF) system. Export declarations go next. On 30 November 2023, CHIEF closes and all export

declarations will be made through CDS. Some groups will be able to use CDS before this date.

The two systems are not identical and it's recommended that businesses take steps now to prepare. Some information is captured differently on CDS, and the way you input data is different, for example. This particularly impacts the way you use the Trade Tariff and the way declaration payments are processed.

HMRC suggests businesses can get ready by:

- applying for an Economic Operator Registration and Identification (EORI) number starting with 'GB'
- subscribing to CDS, so you can submit export declarations from your software to CDS
- reading the latest CDS guidance on gov.uk
- deciding if staff need additional training
- checking if you need to change finance processes, such as setting up a new direct debit for a duty deferment account
- updating business details (email and business address) with HMRC, if necessary
- using the free Trader Dress Rehearsal service as a trial run.

## HMRC LAUNCHES ADVANCE VALUATION SERVICE

Getting the right method to work out the customs value of goods you import is complex. There is now a new HMRC service that you can



use – before the import declaration is made - to make sure that things are in order.

HMRC's advance valuation ruling service (AVRS) checks that the valuation method proposed is correct, and gives businesses a legally binding decision. The decision can then be used for any further imports of these goods for up to three years.

As the name suggests, you apply in advance - before goods are imported or declarations made: HMRC can't give a ruling retrospectively. It's done by signing up through the business tax account. On the business tax account homepage, select 'Get online access to a tax, duty or scheme'. For those without a business tax account, application is made online using your Government Gateway user ID. It can take up to 30 days for HMRC to 'accept' the application and a further 90 days for HMRC to give the ruling. If an agent acts for you, they can apply on your behalf, but only if they have been added to the business tax account as a team member.

The service is not mandatory: but there are clear advantages. A ruling can help make sure the right duty is paid, minimising business risk and helping steer clear of HMRC challenge at a later date.



# Cryptoassets get a mention on the tax return

**HMRC wants to raise awareness of the fact that cryptoasset transactions can mean tax bills – and there's clearly some way to go.**

In a recent survey, 41% of those who replied said they had no information about tax and their cryptoassets. In the light of this, it's perhaps no surprise that the Spring Budget saw an announcement that the design of the self assessment tax return is going to change. From 2024/25, the capital gains tax pages will specifically ask for information on income and gains from cryptoasset transactions. This is meant to serve as a reminder that crypto transactions are within scope of the tax rules and should form part of the yearly review of the tax position.

The buying and selling of cryptoassets is usually treated as a personal investment. This brings it within the capital gains tax regime. However, with the capital gains tax annual exemption currently falling, more people are likely to come within scope of the tax. The exemption is currently £6,000 and by April 2024 – when the new look tax returns are issued - will be £3,000. If these changes are relevant to you, do please get in touch for an in-depth discussion.

# Cars, vans and benefits in kind

If it's a car you provide to your employee, the taxable benefit is higher. If it's a van, the taxable benefit is lower. But what if it's a multi-purpose vehicle? Or modified for use in your business?

For benefit in kind purposes, a car is defined as 'a mechanically propelled road vehicle that is not a goods vehicle.' Or a 'vehicle of a type not commonly used as a private



vehicle and unsuitable to be so used'. Or a motor cycle or an invalid carriage.

And a goods vehicle is a vehicle 'of a construction primarily suited for the conveyance of goods or a burden of any description'.

Having taken the question all the way to the Court of Appeal, HMRC has updated its guidance. At issue in this particular case, were three vehicles: a Vauxhall Vivaro and two different VW Kombis, provided for staff by Coca Cola.

All three had seats behind the driver and had been modified for specific



use. It was decided, however, that none fitted the definition of van for benefit in kind purposes, and permission to appeal to the Supreme Court was refused.

The takeaway message: HMRC's interpretation won the day. It's a verdict likely to impact the range of vehicles that can be classed as vans, and something to bear in mind when completing P11Ds in the future. Please do contact us for a fuller discussion.

# Why basis period reform actually does matter

It sounds entirely shoulder-shruggable: but basis period reform is like the bits under the bonnet. It makes the car go. In this case, it helps determine the tax bill.

## Your tax liability may be higher

Basis period reform is a change that affects unincorporated businesses only – not companies. Within that group, it only affects businesses that don't use a 31 March or 5 April year end. You may have seen it called a change to the 'tax year basis' – because what it does is change the way that your trading income is allocated to tax years:

- until now, if you're an ongoing trader, the rules have been based on the accounting date of your business
- from 6 April 2024, they are based on the tax year
- the change will impact you before 2024
- this is because the current tax year (2023/24) is a transition year, with its own rules about how profits are calculated
- this directly affects the amount of tax paid.

In short, if your business doesn't have an accounting year ending on 31 March or 5 April, the tax calculation this year is based on a longer period than usual. It's based not just on the profits to the end of your normal accounting period: but also on a proportion of the profits from the end of your accounting year up to 5 April 2024 - the date that the new tax year basis begins. Clearly this is likely to mean higher tax bills in 2023/24. It also affects the following four years. The impact of this on cash flow will need consideration.

### Example

- PQR has an accounting year running to 30 September 2023
- he's taxed on profits for the year to 30 September 2023 plus
- a proportion of the profits for 1 October 2023 to 5 April 2024 as well.

This isn't necessarily the end of the story. Your individual mix of income will also affect how much tax you pay. For some people, the change could also mean the need to think about the possibility of the personal allowance being restricted, as occurs if adjusted net income is more than £100,000.

## What can be done about it?

The good news is that routine tax planning strategies such as pension planning, Gift Aid donations and careful allocation of profits between family members, may all be available to help.

There are also two primary reliefs to help lessen the impact of higher tax bills:

- spreading relief: businesses with higher profits in 2023/24 because of the change will automatically have their additional 'profit' spread over five years. This is something you can opt out of, and we can help you decide on the best route for your business
- overlap relief: historically, what are called overlap profits can arise in the first years of trade, with adjustments to the tax bill made when the business ceases. Any overlap relief your business is due must be used now or it will be lost.

Getting the appropriate figure for overlap relief may not be straightforward in every case: for example, where HMRC does not have a record of this from previous tax returns; or where businesses have changed their accountants. Partnerships have their own complications, with each partner having their own figure for overlap relief. These are all things we will discuss with you.

## It doesn't stop there

The change also affects the yearly preparation of accounts and tax returns. In future, information from two sets of accounts, not one, will have to feed into the tax return, adding to the work done. Many businesses in this position will need to submit provisional figures, with adjustments made later, probably in the following year's return.

The solution for some businesses is a change of accounting year end, moving to 31 March. It will not be the case for every business, particularly where there are compelling commercial reasons to use a different year end, such as 31 December. This is also something we will review with you.

Basis period reform will be experienced as quite a disruption for many businesses. We will do all we can to help you through the change.



## A common payroll problem: and how to avoid it

**Nearly 90% of businesses made payroll mistakes in the last year, research suggests. Errors can easily translate into overstretched payroll staff, who need to follow up what's gone wrong, and employees who are left wondering what's happened to their wages.**

A common problem area highlighted by HMRC is the creation of duplicate employments for employees. Where an extra employment record gets set up that's identical to an existing live (or ceased) employment, things can get messy. Quite apart from employee tax coding issues, there's the potential for apparent understatement of employer PAYE liability, and the possibility that HMRC might start debt collection activity.

Duplicate employments can be triggered in a number of ways. Key areas to watch are:

- procedures when a new employee starts work
- payroll ID changes
- when (and after) an employee leaves
- occupational pension and irregular payment fields.

Getting the starter notification and first Full Payment Submission (FPS) right, with accurate personal details, will avoid the need to file updates to employee name, date of birth and gender. Making sure that information is consistent will also help. If the initial FPS gives the name Zachary O'Keefe, make sure that's the name used in future, and that it doesn't get abbreviated to Zak O'Keefe, or Z O'Keefe, for example. HMRC notes that different payroll solutions give different capability and levels of control. But it still expects employers to understand what's going on. It's the payroll software that usually generates employee payroll numbers (sometimes known as employee numbers or employee unique payroll ID), for instance: but HMRC expects employers to understand how they're generated.

We are always on hand to help you steer clear of payroll problems. Whether advising on appropriate software, or carrying out payroll for you, we are here to help.

## Your pension...then there was the Budget

The rules underpinning what you can contribute to a pension, and the rules around the Lifetime Allowance, have changed significantly from 6 April 2023.

**The Annual Allowance (AA)** increased from £40,000 to £60,000. The AA is a yearly limit, and pensions contributions up to this limit attract tax relief. The AA applies to personal, employer and employee contributions.

**Rules around the tapered AA.** If what's called your 'threshold' income (broadly, income less personal pension contributions) is more than £200,000 in a tax year, the AA is restricted and falls by £1 for every £2 of 'adjusted' income (broadly, income plus occupational and employer pension contributions) above a particular limit. In the past, the limit was £240,000. This has changed to £260,000. In the past, your minimum AA could be reduced to as little as £4,000. The minimum is now £10,000.

**The Lifetime Allowance (LTA).** This has been the total that you can build up in pensions savings without incurring a tax charge. The LTA has been £1,073,100, and in some cases, higher, if you have special LTA protection. If

your pension fund is more than the LTA, in the past, there has been a charge on the excess. This would usually come into play when you first accessed pension income, or reached age 75. 'Excess' amounts taken as a lump sum have been taxable at 55%, and 'excess' amounts left in the fund at 25%, with further withdrawals taxed at your marginal rate of tax. The Budget has removed the charge, and the LTA itself will be abolished from the 2024/25 tax year. This is clearly a significant advantage to those with larger pension pots.

The amount of the pension fund which generally can be taken as a tax free lump sum remains £268,275 (calculated as 25% of the LTA). The legislation will be amended to set the tax free amount specifically, rather than being calculated by reference to the LTA.

**The Money Purchase Annual Allowance (MPAA).** This impacts people, over the age of 55, who have already started to access their pension

fund, and it's a limit on how much can then be paid into a pension without attracting a tax charge. It rises from £4,000 to £10,000.

### What happens next?

Much press coverage focussed on the very highest earners, but there is potential benefit in many cases. The ripples go much further than just the size of the pension pot: they can also affect when you plan to retire, and are aimed at making it more feasible to continue working whilst still making pension provision for the future. Pensions could also have a role in inheritance tax planning, helping you pass capital to the next generation without a tax charge. We recommend reviewing plans in the light of all these changes – with a prudent eye, also, to the possibility of a future government taking a different approach.