



TaxCalc's SimpleStep[®] Guide to Tax Season Readiness



Introduction

Here at TaxCalc we're firmly committed to helping accounting firms meet the challenges that life and HMRC throw at them – and that doesn't stop at building award-winning, easy-to-use, integrated software tools.

All year we've been producing webinars and guides to provide a clear path to MTD Readiness, but of course there's more to worry about than that. The annual rush towards January 31 is, as ever, on the horizon. And we know that preparations can never begin too early. That's why we created this guide, featuring essential, practical advice for this tax season.

Inside you'll find our expert analysis of the latest changes to tax legislation which you may have missed and will impact many of your clients. We've also brought together broader 'practice advice' that our own customers recommend for a smoother tax season – and from which you can springboard into a profitable and productive new year.

Note our special coverage of how the skills and recruitment crisis might make January 2023 especially tricky, along with a breakdown of the pros and cons of different capacity solutions that firms might be tempted to employ.

UK accountants – we applaud you, and hope that this guide makes a meaningful contribution to your success this winter.



Andy North

Chief Marketing Officer, TaxCalc



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Contents

Chapter 1

Topical Tax Issues You Need To Be Aware Of	5
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Chapter 2

Resourcing And Capacity	13
--------------------------------------	----

Chapter 3

Self Assessment Survival	16
---------------------------------------	----

Chapter 4

Conclusion	20
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Topical Tax Issues You Need To Be Aware Of

1. Working from home tax relief
2. Class 4 NIC and losses
3. In-year CGT reporting
4. Time To Pay arrangements
5. Cryptoassets and HMRC
6. Reasonable excuse for penalties
7. Jointly held investments
8. New tax residence indicator tool
9. New MTD for VAT penalty regime

1. Working From Home Tax Relief

Ensure your employed clients claim all the tax relief they're entitled to for working from home during the 2021/22 tax year.

In 2020/21 we saw the introduction of a temporary relaxation of the rules which enabled far more people to claim tax relief on the additional costs they incurred through having to work from home. Although originally conceived as a one-off relaxation of the rules for 2020/21 only, HMRC has confirmed that this relaxation will continue to be available to those working from home in 2021/22.

Ordinarily, the rules for claiming tax relief for costs of working from home are prohibitive as they are subject to the ‘wholly, exclusively and necessarily in the performance of their duties’ standard. However, HMRC has provided the following guidance:

‘We recognise that ongoing lockdown restrictions mean that many employees are still required to work from home for some or all of the time. Therefore, we’re accepting claims for the full year’s expenses for the 2020/21 and 2021/22 tax years for employees who are eligible. This includes customers claiming through Self Assessment.

To be eligible for tax relief, you must carry out work which forms all or part of the central duties of your employment – and in doing so, you must have additional costs, such as heating, metered water bills or business calls, that are incurred as a direct result of working from home. They don’t include costs that would stay the same whether you worked at home or in an office.’

Qualifying employees can either claim tax relief on the actual additional costs incurred, provided that these costs can be evidenced, or alternatively use the flat rate amount.

2. Class 4 NIC And Losses

Given the tumultuous economic period that small businesses have endured over the past few years, there will be many self-employed individuals and partnerships that will likely have a disparity between their losses available for tax purposes and those available for NIC purposes.

The flat rate amount is £6 per week and does not have to be pro-rated where working from home only represents part of the working week.

Claims can be made either via HMRC’s dedicated portal (link below) which will result in an amended PAYE code, or via the Self Assessment tax return.

Be aware that the online portal will allow your clients to make a claim for 2022/23 at the same time, even though the relaxation of the rules no longer applies. It is worth checking PAYE coding notices to see if this has been done, or else there will potentially be tax to repay on submission of the 2022/23 return.

In fairness to HMRC, it does provide warnings to the user that the rules change from 6 April 2022 – and state that from that date one of the following must apply in order to qualify:

- There are no appropriate facilities available for you to perform your job on your employer’s premises.
- The nature of the job requires you to live so far from the employer’s premises that it is unreasonable for you to travel to those premises on a daily basis.
- You are required, under government restrictions, to work from home.

[Source: <https://www.gov.uk/tax-relief-for-employees/working-at-home>]

One of the most common causes of such a difference is the use of losses. Where a trader also has income taxed under PAYE, a business loss can be claimed against the PAYE income under s64 ITA 2007, giving a refund of tax. Depending on the amount of loss and the amount of other income, the trading loss could be partly or fully

used up, leaving reduced or no losses available to carry forward for offset against future profits.

Similarly, losses in the early years of trading can be claimed under ITA 2007 s72 and set against non-trading income such as PAYE earnings, investment and other income. In both situations, the losses are utilised for income tax but unless the income against which the losses are claimed arises from a separate business operated by the trader, they are not used for NIC purposes. The losses would therefore remain available for carry forward and offset against future profits for NIC purposes.

As the losses which are carried forward for income tax and for NIC can vary, it is necessary to keep a record

of the losses claimed and the amounts not used for Class 4 NIC purposes, which therefore remain available for carry forward. These can easily be overlooked and excessive Class 4 NIC paid as a result.

[Source: <https://www.gov.uk/hmrc-internal-manuals/national-insurance-manual/nim24610>]

“ **SimpleStep® means I get much more value from my junior staff, because it guides them through the process.**”

Stephen Paul,
Valued Accountancy

3. In-Year CGT Reporting

Since 6 April 2020, any UK resident disposing of a UK residential property who has CGT to pay, must calculate, report and pay their CGT within a short period of time following completion of the property sale.

Initially the period was 30 days, but this period was increased to 60 days for completion dates on or after 27 October 2021 – with the shorter deadline remaining in place for disposals which were completed before that date. Reports must be made online, via the UK Property Reporting Service.

Agents can make a report on behalf of their clients, but they must be authorised specifically for this service. Any existing 64-8 or other authorisation is not sufficient to allow an agent to access the online service.

The rules for non-UK residents share similarities with the rules for UK residents, but crucially non-residents are required to report not just disposals of residential property, but all disposals of UK land, whether or not they realise a gain.

Where a taxpayer has paid more CGT on their property return than is found to be due on completion of their Self Assessment return, HMRC will have to be contacted to request a repayment. This will not happen automatically.

[Source: <https://www.gov.uk/guidance/managing-your-clients-capital-gains-tax-on-uk-property-account>]

4. Time To Pay Arrangements

Where taxpayers are struggling to pay their bill in full, the self-serve time to pay service allows those under Self Assessment to manage how they pay their tax liabilities.

Individuals can use the online service for tax bills worth up to £30,000 without the need to talk to HMRC. The service will create a bespoke monthly payment plan based on how much tax is owed and the length of time needed to pay.

If taxpayers cannot pay in full, they can set up their own time to pay arrangement online if they:

- have filed their 2021-22 tax return;
- owe less than £30,000;
- are within 60 days of the payment deadline; and
- plan to pay their debt off within the next 12 months or less.

If people owe more than £30,000 or need longer to pay, they should call the Self Assessment payment helpline on 0300 200 3822.

[Source: <https://www.gov.uk/difficulties-paying-hmrc/payin-instalments>]

“

TaxCalc is a real productivity booster. For many years, I've made efficiency gains. My working days have shortened since I started using the software.”

Mark Barlow

Shilton Barlow Limited

5. Cryptoassets And HMRC

Cryptocurrencies and other forms of cryptoassets are becoming an increasing feature of many clients' investment portfolios. As such, HMRC is monitoring the sector closely and (in the absence of any specific legislation in this area) offering guidance on whether such activities have a tax consequence.

In its most recent update, HMRC released further guidance on the taxation of DeFi (Decentralised Finance) activities, focusing on the lending and borrowing of cryptoassets. The guidance explains that, in most cases, HMRC considers that staking and lending constitutes a disposal of an asset upon which tax would be due where there has been a gain. Specifically,

HMRC has provided guidance and indicated that typical DeFi transactions would constitute two deemed disposals, whether a party is acting as a lender/liquidity provider or a borrower:

1. In the case of the lender/liquidity provider, the first disposal is made on lending of tokens (or a deposit to a liquidity pool). The second disposal is made upon the return of any tokens received in receipt of the loan.
2. In the case of a borrower, the first disposal is made through staking tokens as collateral for the loan. The second is made on the satisfaction of the principal borrowed.

HMRC has already targeted people trading on digital exchanges with nudge letters reminding them of their tax responsibilities. The campaign is designed to help people to get their tax affairs in order, but is also a sign that HMRC is increasingly concerned about

the potential amounts of tax lost on income from cryptocurrency transactions.

[Source: <https://www.gov.uk/hmrc-internal-manuals/cryptoassets-manual>]

6. Reasonable Excuse For Penalties

More individuals and businesses are incurring tax penalties, partly due to COVID-19 related disruptions. Therefore, what qualifies as a reasonable excuse and when it can apply has perhaps become more important than ever.

HMRC has updated its guidance on what constitutes a reasonable excuse as grounds for appealing a tax penalty. There is no definition of reasonable excuse within tax legislation, its meaning is therefore established through case law. HMRC describes a reasonable excuse as something that stopped you from meeting a tax obligation that you took reasonable care to meet.

The tax penalty legislation requires that once the reasonable excuse ceases to exist, the failure is

remedied without unreasonable delay. Failure to act promptly may well result in a tax penalty.

HMRC's guidance now states that unreasonable delay would be within 14 days, unless some other time limits apply. This means that, in most cases, the taxpayer or their agent have two weeks to file a late return or make a late payment once the excuse has stopped.

It is important to note that 14 days is not stated in the legislation and therefore this is just guidance. Longer periods may also be deemed reasonable, depending upon the individual facts of the case.

[Source: <https://www.gov.uk/hmrc-internal-manuals/compliance-handbook/ch160000>]

7. Jointly Held Investments

The default position for property held jointly by individuals who are married – or civil partners who are living together – is that they are treated for income tax purposes as beneficially entitled to the income in equal shares.

This is subject to exceptions, such as:

- income to which neither of the individuals is beneficially entitled;
- income that is partnership income;

- income from the commercial letting of furnished holiday accommodation;
- income from shares in a close company; and
- income that for tax purposes is treated as income of a third party.

Form 17 can be used for any other property held jointly in unequal shares where the income entitlement arises in proportion to those shares and the owners wish to be taxed on that basis.

The tax basis is only effective from the date of the declaration and only then if submitted to HMRC within 60 days of the date on which the declaration was made. This is a strict deadline and cannot be extended.

The split of income for tax purposes produced by a valid declaration goes on running for all later years, without any further action until one of the following events happens:

- one spouse or civil partner dies;
- the couple separate permanently;
- the couple divorce or the civil partnership is dissolved (where the couple have not already separated permanently);
- the beneficial interest of either spouse or civil partner in either the property or the income it produces changes. For example, this can happen if one spouse or civil partner transfers any part of his/her beneficial interest to the other or to a third party.

The couple cannot simply choose to end the split of income which results from a declaration; it goes on running until one of the four events listed above occurs. But even the smallest change of interest (see 4 above) stops the declaration running. The standard 50/50 rule then applies again unless the couple make a fresh declaration.

[Source: <https://www.gov.uk/hmrc-internal-manuals/trusts-settlements-and-estates-manual/tsem9800>]

8. New Tax Residence Indicator Tool

HMRC has launched a new tool to help taxpayers determine their tax residence status.

The tool applies the rules as set out in the Statutory Residence Test (SRT) to help determine an individual's residence status for tax purposes.

The tool is suitable for most people whose affairs are straightforward and covers the:

- automatic overseas test;
- automatic UK tests;
- sufficient ties test.

Although the questions can be worked through in logical order – and a result presented to the user – it is disappointing that it is not possible to view or download a copy of the answers given to check that they are correct. Nor is it possible to rely on the outcome in the same way as the Check Employment Status Tool (CEST) or its predecessor the Employment Status Indicator (ESI) tool.

[Source: <https://www.gov.uk/tax-foreign-income/residence>]

9. New MTD For VAT Penalty Regime

The mandating of MTD for VAT for all VAT traders (those not subject to exemptions) from 1 April 2022 was to be accompanied by two completely new penalty regimes for late VAT payment and for late filing of VAT returns. These new types of penalty will now apply from 1 January 2023.

The changes will affect everyone submitting VAT Returns for accounting periods starting on or after 1 January 2023. Any nil or repayment VAT returns received late will also be subject to late submission penalty points and financial penalties.

Late submission penalties will work on a points-based system. Each VAT Return submitted late will receive one late submission penalty point. Once a penalty threshold is reached, a £200 penalty will be issued with a further £200 penalty for each subsequent late submission.

The late submission penalty points threshold will vary according to the submission frequency. For quarterly returns, the points threshold is 4,

for monthly returns, the threshold is 5 and for annual returns, the threshold is 2.

For late payment penalties, the sooner payment is made the lower the penalty rate will be. No penalty will be charged where VAT is paid in full, or a payment plan agreed, within 15 days of the due date.

A penalty calculated at 2% on the VAT owed on day 15 will be charged for amounts between 16 and 30 days overdue and, if 31 days or more overdue, there will be a further 2% penalty on amounts still outstanding on day 30.

To give taxpayers time to get used to the changes, HMRC will not charge a first late payment penalty for the first year from 1 January 2023 until 31 December 2023, if payment is made in full within 30 days of the payment due date.

[Source: <https://www.gov.uk/guidance/prepare-for-upcoming-changes-to-vat-penalties-and-vat-interest-charges>]



The Knowledgebase and SimpleStep[®] tools make sure that, even if the tax rules change, I don't miss anything!"

Eriona Bajrakurtaj,
CEO, Major's Accounts

Resourcing And Capacity

Capacity And Recruitment

One of the biggest contributing factors to your capacity in any tax season is having the staff you need and being able to rely on them.

This year is no exception and unfortunately, as for many other employers, finding good people is going to be hard if you find yourself a pair of hands down during tax season.

According to research, the already tough competition for staff has never been fiercer. As Melissa Davey, Recruitment Specialist for The Accountant's Recruiter, says: 'It's taking up to three months to fill roles in most small firms at the moment'. And all indications suggest that this isn't going to change in the foreseeable future.

So, what are your options for meeting your resourcing challenge for tax season? We asked our customers for their best practice pointers.

1. Start Training Now

Getting junior or inexperienced staff on board and providing them with solid, on-the-job training can often yield excellent results. Obviously, not all tasks require a fully-trained accountant, which means that basic admin tasks can be taken on by juniors with sufficient training.

Acting early and providing the right support could mean that, by December, you have capable staff in place for the short-term – and

potentially a loyal long-term workforce – whether fully on the payroll, or as part-timers.

This approach, admittedly, does have some risks. Leaving tax return production to junior staff could mean that you'll spend more time checking their work and correcting errors. However, by providing checklists and clear instructions, this can be minimised. Also, using software that provides guiderails, such as TaxCalc's SimpleStep® functionality, which

intuitively walks users through forms, fast forwarding to relevant areas, can save huge amounts of time. Or using TaxCalc's checking tool, Check and Finish® to limit the chances of errors and omissions. All these can pay big

dividends. Just getting trainees to familiarise themselves with simple software before the workload kicks in will increase their proficiency and your peace of mind.

2. Automate As Many Processes As Possible

It may take some time to set up systems, but many practice management tools can transform your efficiency, especially in busy times.

For example, TaxCalc Communications Centre can take the stress out of reaching out to clients and maintaining contact by generating requests for

information automatically. Invoice scanning software can eliminate a highly time-consuming aspect of bookkeeping. Other PM tools, such as TaxCalc Practice Manager Plus, can automate workflows, making it easy for staff to follow pre-set procedures – and for you to see work as it progresses through your firm, helping to banish bottlenecks.

3. Offer Remote Working

According to The Accountant's Recruiter, firms are more successful at attracting candidates if they can offer flexibility. Simply allowing staff to work flexible hours can make you significantly more appealing to job seekers.

The ability to work from home is also a major selling point. CloudConnect, TaxCalc's remote working service,

offers an affordable platform that enables cloud-based remote working, providing workers with access to the data they need in an ultra-secure environment. If you do plan to deploy a remote workforce, be mindful that it's better to have workflow tools in place to ensure jobs are monitored and trafficked effectively.



With TaxCalc's CloudConnect® we have the flexibility to function completely remotely as if we were in the same office."

Tory Wagg
CEO, Panthera Accounting

4. Subcontract To Other Accountants

Perhaps someone in your area is in the very early stages of setting up their own practice and needs to supplement their income with subcontract work while building their own client base.

Or maybe you know some employed accountants in practice who'd be happy to 'prepare' some accounts and tax returns for you in the evenings and weekends

for a little extra pocket money (check first that their current employer allows this freedom). Using reliable subcontractors can be a great way to increase your capacity at busy times without any ongoing financial commitment. However, be aware of the requirements of your professional body when it comes to using subcontractors, particularly with regards to engagement terms, PI insurance and AML compliance.

5. Outsource To A Formal Outsourcing Operation

Whether based in the UK or abroad, these organisations (especially overseas options) offer great capacity and can produce UK compliant tax returns in volume. Be aware, though, about security – both in terms of personnel and in the transfer of data offshore and seek formal reassurances.

Some firms have reported that this solution isn't truly suited for solving short-term capacity crunches. It can take a substantial amount of time and effort to integrate an outsourcing business with your own processes before you really see the benefit. This could well be a good option for those making a long-term strategic decision to grow capacity externally.

Self Assessment Survival

Every year, we tell ourselves that things will go much more smoothly next tax season. Every year, we tell ourselves that all client tax returns will be filed by Christmas. Yet every year seems to bring a new set of challenges and we find ourselves once again in familiar territory as that tax return deadline approaches.

How can you make sure that this year is different?

We spoke to some of our customers about how they've eased the burden of seasonality for their tax compliance work.

1. Find Alternative Sources For Tax Return Information

If clients provided relevant tax information when they received it, you'd very likely have all tax returns completed by summer, let alone Christmas. In the absence of client utopia, make sure you're maximising the availability of data that you can obtain without waiting on their input.

All good tax software can now fetch taxpayer data directly from HMRC using publicly available APIs (Application Programming Interface). The data available to agents includes PAYE information (employments and pensions), P11D benefits, state benefits, marriage allowance claims and Class 1 & 2 NIC details. For those familiar with this functionality, you'll know that HMRC's data isn't always the most reliable – but it can give you a good starting point and perhaps identify

some sources of income that your client may have inadvertently failed to provide.

Try establishing a relationship with your client's other advisers. If, for example, your client uses the services of a wealth manager or independent financial adviser, they can be a very useful source of investment information. Most are very open to speaking with accountants, as they often see them as a potential source of regular referrals. Do make sure they have permission from your client to share relevant information with you.

If your client uses a bookkeeper, internal or external, or even just an administrative assistant, they can be effective at eliciting the necessary information on your behalf. Never underestimate the benefit of building a strong relationship with key members of your client's inner circle.

2. Manage 'Tricky' Clients

Identify which of your clients cause you the greatest difficulty in managing your tax season workload and contact them as a pre-emptive strike.

Create a list of clients whose previous tax returns were filed during January. These clients will have the biggest negative impact on your practice if you don't

address them first. Rather than have your team email them innocuous chaser emails (that they can choose to ignore), why not phone every 'tricky' client and explain why it's important for you to have their information earlier. Agree a date by which they will provide the information and what the consequence will be if they don't. Such an approach may not work with every client, but it will work with enough to make a big difference.

3. Chase, Chase And Chase Again

In most cases, it's not that clients are being deliberately obstructive, it's just that life and business gets in the way.

They may start out with the best intentions of giving you everything you need, but as soon as ten more emails hit their inbox, your request has suddenly been relegated to page six of their to-do list.

To avoid this, make sure that your requests are continually bumped to the top of that list. You want to bug them just enough that they take action, but not so much that they find it an annoyance. Sending reminders every two weeks to these clients isn't excessive. It's effective.

If you can automatically generate these reminders from within your practice software, even better.

“

TaxCalc's Check & Finish[®] feature acts as a second pair of eyes to ensure that everything has been entered correctly and there are no anomalies.”

Rhys Blayney FMAAT
Blayney Accountancy Limited

4. Commit To Complete

When an important deadline such as 31 January approaches, your time (and that of your team) is a scarce resource.

Don't start preparing a set of accounts or a tax return until the client has given you all the information you need to complete it. Stopping and starting a job will take much longer than knocking it out in one hit and will stifle your efficiency when you need it most.

Make it part of your standard procedures to log all information that your client provides against a list of what's required to start the job. Only once all the information is received, should it be assigned to

someone to prepare. Until then, the client should continue to receive their fortnightly reminders of what is outstanding.

Once you start a job, make sure you're in the best position to complete that job effectively. There's no problem with setting up an accounts file in advance with comparatives and last year's notes – it will allow you to hit the ground running. Make sure you've allocated sufficient time in the diary to complete the job. Blank it out in your calendar and change your status to 'do not disturb'. The more you do this, the more people will respect your time.

5. Plan And Prioritise Around Your Tax Work

As the focus after Christmas switches so heavily towards the personal tax filing deadline, it can be easy to forget that life goes on for corporation tax filing, VAT return filing and, of course, payroll filing. Make sure that all your other work is properly planned in around the personal tax work.

It can really help to alleviate pressure if you can accelerate some of that other work. Companies with March and April year ends will need to file their CT returns in December and January. Can you take a similar approach to getting those accounts completed and filed earlier in the cycle?

Only VAT returns on stagger 3 (Feb/May/Aug/Nov) will have a filing deadline within January itself (i.e. on 7 January). Is it worthwhile moving those clients onto

stagger 1 or 2 instead to avoid that clash? Many of our customers are considering whether to move everyone to stagger 1 in time for April 2024 when all MTD for ITSA clients will effectively file their income and expenses to that stagger. Perhaps you could make it your policy for every MTD for ITSA qualifying client to be on stagger 1 (so VAT and ITSA returns can be filed at the same time) and move all other VAT-registered clients to stagger 2.

Similarly, if there are any tasks that you or your team would ordinarily be doing in January, but are not quite so time sensitive, can they be delayed until February? If any of these are client-facing tasks, then remember to inform any affected clients early so that their expectations are managed. Clients are often well aware how busy January is for accountants, so they will usually be understanding for any non-urgent work.

6. Evaluate Your Opportunities

If you have the capacity, January is often a time when prospects are knocking down your door, conscious that they have a deadline to meet.

As tempting as it is to take that cash, be particularly strict about which, and how many, new clients you

onboard. The extra stress may never be worth the fee, particularly if they become a January repeat offender. Make sure that you are only taking on ideal clients this month, or perhaps only those that have already filed their return.



We build TaxCalc into the way our Practice runs. We really feel that TaxCalc is our partner.”

Tory Wagg
CEO, Panthera Accounting

Conclusion

We hope you find the contained advice useful and that you get all your tax returns completed well in advance of the deadline.

However, always remember for those clients with the inclination for letting deadlines sail past, there's always the option of paying HMRC's three month filing deadline extension fee. Available for a very reasonable £100!

“ I save on average 45 minutes per tax return using your software.”

Daniel Mobbs FCCA
Whittington Raymond

This document is accurate at the date of publication (12th September 2022) but rest assured, our expert team will update you (and obviously our software tools) as and when anything changes in the coming months and years.

TaxCalc Support – We Salute You!

Be assured, that from the very first tax return that you file for your clients – to the very last – we're here for you.

Our world-class UK-based support team is fully prepared to respond to your product and technical queries, with extended opening hours and special Late Night Taxing sessions on certain days to field your questions and issues after office hours. Check our website in December for full details:

taxcalc.com/support.

Contacting Support By Email
Support@taxcalc.com

1. For common issues, we'll reply by email with the solution or direct you to a video or Knowledgebase article.
2. If your enquiry is more complex, we'll allocate it to a specialist in the support team who will contact you.

