

BARRISTERS

Management of Professional
Finances

MENZIES
BRIGHTER THINKING

BARRISTER TEAM

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PROGRAMME TIMETABLE

- Registration
- Responsibilities as a self employed individual
- Accounts and Choosing your year end
- Tax and Tax Returns
- Case Study

TEA BREAK

- Allowable expenditure
- Penalties and Enquiries
- VAT
- Money Laundering Regulations

RESPONSIBILITIES AS A SELF-EMPLOYED INDIVIDUAL

- The UK operates a “self assessment” tax system
- Record keeping
- Statutory requirement to keep records for 6 years
- Open a separate bank account
- Need to register with HMRC online
- By 5 October in your second year of trading

ACCOUNTS

Choosing your year end

- UK Tax Year runs 6 April – 5 April
- But you can choose when your accounting year ends
- First set of accounts cannot be longer than 18 months
- First year taxed on profits to 5 April
- Filing deadline:
 - Paper filing – 31 October following the end of the tax year
 - Electronic filing – 31 January following the end of the tax year
- What tax will you pay? – POA, Class 4 NIC, Class 2 NIC
- Student loan repayments

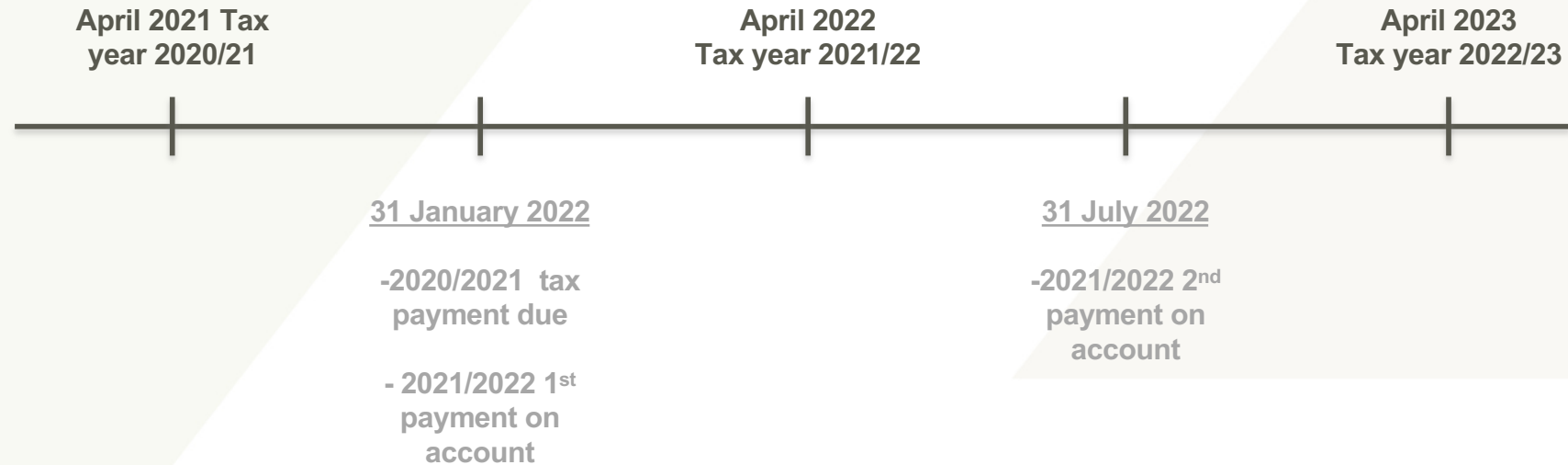
BASIS OF TAXATION

- Cash basis
 - New rules from 6 April 2017
 - Turnover less than cash basis threshold (currently £150,000) can elect to prepare on cash basis
 - Leave the scheme when receipts twice the cash basis threshold (currently £300,000)
- True & fair basis
 - Debtors
 - Work in Progress (WIP)

MAKING TAX DIGITAL

- Introduced in April 2019 and will be compulsory if you earn over VAT threshold
 - Optional if below the threshold
- A requirement to keep digital records
- Self employed will need to file VAT accounts on a quarterly basis using software not provided by HMRC
- We expect this to be rolled out to self-assessment income tax in due course after April 2020

TIMELINE



CASE STUDY

- **Step 1 – registering with HMRC**

- Bertie secured pupillage beginning 1 October 2019
- His first six months pupillage award is tax free (1 October 2019 – 31 March 2020)
- The second six months, 1 April – 30 September 2020, starts his accounting period
- Bertie registers with HMRC as being self employed and for Class 2 NIC before 6 October 2022,

- **Step 2 – Accounting Year End**

- Bertie has decided that his accounting year end will be 5 April (NB: HMRC will ignore the first five days from 1 April-5 April 2020 so a tax return for 2019/20 need not be completed but if you register and say your trade started on 1 April 2020 HMRC's system will issue a 2019/20 tax return)
- Bertie's first accounting year runs 1 April 2020 – 5 April 2021
- Bertie has received cash of £50,000 and incurred expenses of £30,000. He therefore has profits of £20,000 on which he is taxed

CASE STUDY

- **Step 3 – the Tax Return**

- Bertie's tax return has been completed, with addition to the profit from his self employment as a barrister; there is also a small amount of bank interest. His tax and NI liability for the tax year 2020/21 is calculated at £2,680
- Bertie's tax return is due electronically by 31 January 2022
- Bertie's tax bill of £2,680 is due by 31 January 2022
- Bertie is also due to make two payments on account towards his 2021/22 tax liability of £1,340 ($£2,680 / 2$)

	Payment due 31 January 2022	Payment due 31 July 2022
2020/21 Balancing payment	2,680.00	
2021/22 1st Payment on Account	1,340.00	
2021/22 2nd Payment on Account		1,340.00
Total	4,020.00	1,340.00

CASE STUDY

- Step 4 – next year's tax return
 - We then prepare the 2021/22 tax return and see that Bertie has a tax liability of £11,380 based on a profit of £50,000.
 - Bertie has already made two payments on account totalling £2,640.00 which leaves a balance of £8,740.00 to be paid on 31 January 2023
 - But there is something else Bertie will need to pay on this date – the first payment on account for the next year's liability. This year, they will be £5,690 (50% of the £11,380 liability) and this makes the total payment to be £14,430 due to be paid by the 31 January 2023

TEA BREAK

EXPENDITURE

Generally, HMRC allow you to deduct all expenditure that is:

- Incurred “wholly and exclusively” for the purpose of generating your business income.
- Revenue in nature – although plant and machinery may qualify for capital allowances.
- Not an expense that is specifically disallowed by statute/case law.

The following expenses are not an exhaustive list but helps give you an understanding of the main expenses usually claimed.

ALLOWABLE EXPENDITURE

Revenue

- Chambers rent and/or clerk fees
- Practice certificate, Indemnity insurance and Data Protection Act payments
- Accountancy fees
- Business Use of Home:
 - A reasonable proportion of household costs or
 - Flat rate (between £10 and £26 per month) depending on number of hours worked from home (25 hours to 101 hours a month)
- Mobile/internet costs – business use only

ALLOWABLE EXPENDITURE

- Books & Stationery
- Collars, bands and studs
- Bank charges for operating a business account.
- Bank interest - if account overdrawn to settle business expenses (under the cash basis finance costs capped at £500)
- Travel (normal commuting does not count, i.e. home to chambers)
- Hotels and reasonable subsistence costs if incurred during qualifying business travel

ALLOWABLE EXPENDITURE

Motor Expenses:

- Annual allowance given based on the cost of the car and a percentage (18% to 6%) dependant on the CO₂ emission (110g/km) less any private use. Plus road tax, insurance, MOT/servicing, fuel costs less private use **or**
- Claim based on HMRC AMAP rates of 45p a mile for first 10,000 business miles then 25p thereafter
- Car lease payments allowable subject to a 15% restriction for rental of cars with CO₂ over 110g/km less private use

ALLOWABLE EXPENDITURE

Capital – Qualifying Plant & Machinery

Cash Basis – simply claim a deduction for cost of asset.
Include sale proceeds as income if assets later sold.

True & Fair Basis - Annual Investment Allowance currently allows 100% relief on purchases of up to £200,000 (£1m from 1 Jan 2019) therefore in reality all qualifying costs will be fully deductible

- Wigs and Gown (but laundry costs allowed as revenue)
- Suitcase Trolley bags
- Laptops / iPADS, less any private use adjustment

EXPENDITURE

Disallowable

- Costs of BPTC
- Interest on the loan taken out to pay for BPTC
- Dinners at the Inn
- Inns of Court membership
- Clothing e.g. suits, shirts, shoes etc.
- Client/Contact entertaining
- Parking/speeding fines
- Payment of Tax and National Insurance
- Overdraft fees to fund private expenses

PENALTIES & ENQUIRIES

- Failure to submit a tax return on time
 - 1 day late – £100
 - 3 months late – £10 for each day up to 90 day max
 - 6 months late – £300 or 5% of tax due, whichever is the higher
 - 12 months late – £300 or 5% of the tax due whichever is the higher Serious cases may be asked to pay 100%
- Failure to pay tax due
 - Interest – currently 3.25%
 - Penalties
 - 30 days late – 5% of tax due
 - 6 months late – 5% of tax due
 - 12 months late – 5% of tax due
- Failure to register with HMRC
 - Penalty due based on tax outstanding at 31 January
- Enquiries

VAT

- **Compulsory registration**
 - Turnover exceeds VAT threshold (currently £85,000) in a rolling 12 month period
- **Voluntary registration**
 - You can register voluntarily if your business turnover is below £85,000
- **VAT Returns**
 - Prepared every quarter
 - Return has to be submitted online one month and seven days after the quarter end
 - Payment is due same time as submission deadline
 - Making Tax Digital from April 2019
- **Input VAT**
 - 50% on lease payments of car
 - Two dark suits and six tunic shirts
 - May recover input VAT on services if incurred six months before effective date of registration if the service is for a taxable business purpose
 - Input VAT on goods may be claimed if incurred up to four years before effective date of registration if goods still used in the business

MONEY LAUNDERING REGULATIONS

- What is money laundering?
- Does this affect me?
 - Regulations apply to a number of persons including
 - tax advisers
 - independent legal professionals (firm or sole practitioner) when dealing with
 - Buying or selling or property
 - Managing client money, savings or securities
 - Organisation of contributions necessary for creation, operation or management of companies
 - Creation, operation or management of trusts, companies or similar structures
- Important decision in Bowman v Fels
- Obligations
- Penalties
 - Fine or up to 2 years imprisonment

USEFUL CONTACT DETAILS

- Registering for Self Assessment and National Insurance contributions if you are a self-employed sole trader
<https://www.gov.uk/government/publications/self-assessment-and-national-insurance-contributions-register-if-youre-a-self-employed-sole-trader-cwf1>
- Record Keeping software
<https://www.gov.uk/government/publications/record-keeping-and-simpler-income-tax-applicationssoftware>

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