



Simpler Income Tax for the Simplest Small Businesses

Small Businesses – what the
proposals mean for you

What are the proposals?

From April 2013, the Government proposes to introduce a voluntary cash basis for small businesses along with simplified arrangements for some business expenses.

Who will be able to use the cash basis?

- Most self-employed people, particularly those whose earnings come from their own work
- The Government would like to explore a threshold so that small businesses with receipts of less than £77,000 would be eligible, and they could continue to use it until their receipts rise to more than £150,000 in any year.

Who won't be able to use the cash basis?

- Small businesses with receipts of more than £150,000 in any year
- Property businesses
- Companies and some other specific businesses.

Who will be able to use simplified expenses?

- Any business using the cash basis must do so
- Any other business (apart from Companies and Limited Liability Partnerships).

Who won't be able to use simplified expenses?

- Companies.

How will the cash basis differ from the normal tax rules?

- No need to understand rules designed for larger businesses
- No need to pay tax until cash is received
- No need to keep complicated records (for example, stock, debtors and creditors), over and above those needed to run a business effectively
- No need to understand capital allowances
- No need to keep detailed records for certain key expenses – use a standard rate instead.

I qualify for the cash basis but will I have to use it?

The new, simpler scheme should be suitable for most small businesses, although some may still wish to use the normal rules. It will be entirely voluntary and any business using the new scheme will be free to go back to the normal rules. Businesses can choose the scheme that works best for them.

What will I need to do to use the cash basis?

- Record all money received in connection with your business and amounts paid to cover allowable expenses
- Record any business miles driven by car or motorcycle and be in a position to assess roughly how much time, if any, you spend working at home for your business
- Select cash basis on your Tax Return form.

How will I calculate my taxable income?

The new cash basis will operate by reference to the tax year (6 April to 5 April). This means small businesses will be able to calculate their taxable income for the tax year by adding or subtracting:

- Receipts in connection with the business received in the tax year
- Payments made in the tax year to cover allowable expenses
- Amounts allowed for simplified expenses.

What expenses will be allowable?

- Those incurred for the purpose of the business, such as anything bought to be sold on
- Some bought assets, such as plant or machinery and vans
- Interest on purchases, provided the purchase itself is an allowable expense. So, trade credit charged by suppliers of goods or services, the interest charges for hire purchase or leasing of plant or machinery, and credit card interest on allowable purchases are permitted.

What expenses won't be allowable?

- Other bought assets such as investments in land, property and shares
- Costs allowed via simplified expenses
- Interest on cash borrowings, such as a bank loan
- The withdrawal of cash for personal use
- Payment of income tax or capital gains tax.

I'm an existing business, so how will I switch to the cash basis?

To do so may require adjustments to taxable income.

HMRC will be providing guidance to help small businesses make the switch.

How will I leave the cash basis?

Businesses will be able to continue using the cash basis until their receipts for the tax year are more than £150,000, in which case the normal tax rules would apply from the beginning of the following year.

Businesses will also be able to choose to switch to using the normal rules before then.

When a business switches from the cash basis to the normal rules, it may also need to make some adjustments to taxable income.

HMRC will be providing guidance to help small businesses leave the cash basis.

What are simplified expenses?

- Standard mileage rate for business use of cars or motorcycles.
- Flat rate expenses for business use of home.
- Flat rate adjustment for personal use of business premises.

Can I have a say on these proposals?

The Government wants to hear the views of small businesses on the cash basis. You can write or email HMRC with your responses to these questions.

- Do you think the entry limit of £77,000 and the exit limit of £150,000 are appropriate?
- If you don't think the entry and exit limits above are appropriate, why not?
- If you don't think the proposed entry and exit limits above are appropriate, what figures would you suggest instead?
- What are the pros and cons, as well as any other implications, of the cash basis? Please list these.

Please send responses (or enquiries about the content or scope of the consultation, requests for hard copies, or information about consultation events) to:

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The full consultation document contains more detail and can be viewed or downloaded by following this link

http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageLibrary_ConsultationDocuments&propertyType=document&columns=1&id=HMCE_PROD1_031991