

Headlines

- Mixing Business Travel with Pleasure: What Can You Claim Tax-Free?
- Switching to VAT Cash Accounting? Avoid These Costly Mistakes
- Joint Savings Accounts: Could You Be Paying Tax on Interest That Isn't Yours?



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Mixing Business Travel with Pleasure: What Can You Claim Tax-Free?

Business trips do not always have to be strictly business. Whether you're attending a conference abroad, visiting clients or travelling to another office, you might want to explore the local area or have your spouse join you.

But does adding a personal element to a business trip mean the entire journey becomes taxable?

The good news is that business and personal travel costs can often be separated, allowing legitimate business expenses to remain tax-free.

Can you combine business travel with a holiday?

Yes. HMRC generally allows employees and company directors to claim qualifying business travel expenses even when a trip includes some personal activities.

For example, imagine a company director travelling to Rome for a client meeting. After completing the meeting, they spend the evening sightseeing before returning home the following morning.

Provided the trip was genuinely required for business purposes, the company can generally cover the qualifying flights and accommodation without creating a taxable benefit.

However, personal expenses such as sightseeing tours, attraction tickets and private taxi journeys would not qualify for the same exemption.

The important distinction is between costs incurred for business purposes and those incurred for personal enjoyment.

What if your spouse joins you?

This is where things become particularly interesting.

Suppose an employee travels to another city for several days to help establish a new business location. Their spouse decides to join them over the weekend, travelling separately and sharing the hotel room.

Does this automatically make the accommodation taxable? **Not necessarily.**

If the employee would have incurred the same accommodation costs regardless of whether their spouse joined them, the qualifying business accommodation can generally remain tax-free.

For example:

- The employee's hotel room costs £150 per night.
- Their spouse joins them for part of the trip.
- The hotel charges the same £150 whether one or two people occupy the room. The spouse pays for their own travel.

In this situation, the spouse's presence does not automatically create an additional taxable benefit.

When could additional tax arise?

Problems can arise when the employer pays additional costs specifically relating to the personal element of the trip.

For example, if the hotel charges an additional £40 per night for a second guest and the company pays this amount, the extra cost would generally be treated as a personal benefit.

Similarly, if an employee extends their trip for a holiday and the employer pays for additional private accommodation, meals or activities, those costs may be taxable.

The same applies where personal travel arrangements increase the cost of flights or other expenses.

Businesses should therefore distinguish between the original cost of a necessary business journey and any additional expenditure arising from personal activities.

What should business owners and directors do?

A clear travel expenses policy can help businesses avoid unexpected tax liabilities.

The policy should explain which expenses the company will cover, how personal costs are treated and what supporting records employees must provide.

For example, businesses could require employees to:

- Keep receipts for travel, accommodation and other business expenses.
- Identify additional costs relating to spouses or family members.
- Pay personally for leisure activities and private travel.
- Obtain approval before extending business trips for personal reasons.

These steps can help ensure that legitimate business expenses remain tax-free while reducing the risk of unnecessary benefit in kind reporting and employer National Insurance costs.

Final thoughts

Combining business travel with personal activities does not automatically prevent you from claiming legitimate business expenses.

The key is understanding which costs would have been incurred for business purposes regardless of any personal arrangements.

For company directors and employers, maintaining accurate records and having a clear expenses policy can make a significant difference.

A business trip can include some personal enjoyment without creating an unnecessary tax bill, provided the expenses are properly separated and the relevant HMRC conditions are met.

Switching to VAT Cash Accounting? Avoid These Costly Mistakes

For many small businesses, cash flow is just as important as profitability. One common frustration is having to pay VAT to HMRC before customers have actually paid their invoices.

The **VAT Cash Accounting Scheme** can help address this problem, but switching from standard VAT accounting requires careful planning. Getting the transition wrong could mean paying VAT twice, reclaiming it too early or submitting an incorrect VAT return.

How does VAT cash accounting work?

Under standard VAT accounting, businesses generally account for VAT when they issue invoices or make taxable supplies, regardless of whether customers have paid.

Cash accounting works differently.

Businesses account for VAT on sales when they receive payment from customers, rather than when they issue the invoice.

For example, suppose your business issues an invoice for **£12,000, including £2,000 VAT**, in September, but the customer does not pay until November.

Under standard VAT accounting, the £2,000 would normally be included in the VAT return covering September.

Under cash accounting, the VAT would generally become payable when the customer pays in November.

This can provide a valuable cash flow advantage, particularly for businesses offering extended payment terms.

There is a downside to consider

Cash accounting also changes when businesses can reclaim VAT on purchases.

Under the scheme, you generally cannot reclaim input VAT until you have paid your supplier.

For businesses that receive customer payments quickly but take longer to pay suppliers, the scheme may

offer little benefit or could even worsen cash flow.

It is therefore worth reviewing your payment patterns before deciding whether cash accounting is suitable.

What happens to invoices issued before switching?

This is where businesses can easily make mistakes.

Imagine a consultancy business switches to VAT cash accounting on **1 August.**

In July, it issued invoices to customers for services already supplied, and the VAT was correctly accounted

for under the standard VAT method.

However, some customers do not pay until September or October.

Does the business need to account for VAT again when those payments arrive?

No. Where the VAT was already correctly accounted for under the previous method, receiving payment after the switch does not create a second VAT liability.

The business should not issue replacement invoices or charge VAT again simply because the customer pays after the new accounting method begins.

The same principle helps prevent VAT on purchases from being reclaimed twice.

Understanding the VAT tax point

The key to handling these situations correctly is understanding the tax point.

A tax point determines when a transaction is treated as taking place for VAT purposes.

For most transactions, the basic tax point is:

- **Goods:** When they are delivered, collected or made available to the customer.
- **Services:** When the services are completed.

However, issuing an invoice or receiving payment earlier can create an earlier tax point.

An invoice issued within 14 days after the basic tax point can also move the tax point to the invoice date, subject to the applicable rules.

When switching accounting methods, identifying the correct tax point helps determine how outstanding transactions should be treated.

How can businesses avoid mistakes?

Before changing to cash accounting, businesses should review their outstanding customer and supplier balances.

For example, a business with £50,000 of unpaid customer invoices should identify which invoices have already been included in previous VAT returns.

If those invoices are subsequently paid, the accounting system must not incorrectly include the same VAT again.

Businesses should also ensure that VAT on unpaid supplier invoices is treated correctly during the transition.

Most modern accounting software, including Xero and QuickBooks, supports both standard and cash accounting. However, simply changing a software setting does not guarantee that historic transactions will be handled correctly.

A reconciliation of outstanding invoices, payments and previous VAT returns is essential.

Practical checklist: Switching to VAT cash accounting

If you're considering making the switch, use this checklist to help avoid common mistakes.
Before switching

- **Check eligibility.** Confirm that your business meets HMRC's conditions for using the scheme, including the applicable taxable turnover limit.
- **Choose the transition date.** Identify the VAT period from which cash accounting will apply.
  Review unpaid customer invoices. List outstanding sales invoices and identify which have already been included in VAT returns.
- **Reviewunpaidsupplier invoices.** Identify purchase invoices on which input VAT has already been reclaimed.
- **Check the tax points.** Pay particular attention to advance payments, instalments, ongoing services and invoices issued close to the transition date.

- **Reconcile your VAT records.** Ensure outstanding balances agree with your accounting records and previously submitted VAT returns.

During the tr ansition

- **Update your accounting software.** Configure the correct VAT accounting method and check how the software treats existing invoices.
- **Protect historic transactions.** Ensure VAT already accounted for under the previous method is not reported again when payment is received or made.
- **Check partialpayments.**Confirm that VAT on new cash-accounting transactions is recognised inlinew ith the payments received or made.
- **Review the first VAT return.** Compare the VAT return against the outstanding invoice schedule and bank transactions before submission.

After switching

- **Reconcile regularly.** Match customer receipts and supplier payments to the correct invoices.
- **Monitor turnover.** Check that the business continues to meet the scheme's eligibility conditions.
- **Reviewcashflow benefits.** Assess whether the scheme is delivering the expected improvement, particularly if customer or supplier payment patterns change.

Practical tip: Keep a copy of your outstanding sales and purchase invoice reports as at the transition date, together with the VAT treatment of each balance. This creates a useful audit trail and makes future reconciliations much easier.

Is cash accounting right for your business?

The scheme can be particularly useful for businesses that regularly experience delayed customer payments, including consultancies, professional services firms and businesses offering longer credit terms.

However, businesses with substantial upfront purchases or those that regularly receive VAT repayments may find standa rd VAT accounting more beneficial.

Eligibility also d epends on meeting HMRC's conditions, including the relevant taxable turnover limits.

Final thoughts

VAT cash accounting can improve cash flow by ensuring businesses generally pay VAT when customers pay them, rather than before.

However, switching between VAT accounting methods without reviewing outstanding transactions can create unnecessary complications and potentially costly errors.

The key is to make sure VAT is accounted for once, at the correct time, and that your accounting records properly reflect the transition.

Before switching, review your outstanding invoices, supplier payments and accounting software settings to ensure the change delivers the intended cash flow benefits without creating additional VAT problems.

Joint Savings Accounts: Could You Be Paying Tax on Interest That Isn't Yours?

Joint bank accounts are commonly used by married couples, family members and individuals helping elderly parents manage their finances.

But sharing a bank account does not necessarily mean sharing the tax liability.

In some circumstances, HMRC may assume that you are receiving taxable savings income simply because your name appears on an account, even when the money belongs entirely to someone else.

Understanding the rules could help you avoid paying unnecessary tax and prevent complications with HMRC.

Does having your name on a joint account make the interest taxable?

Not necessarily.

For most joint account holders, the tax treatment depends on who actually owns the money and is entitled to the interest, rather than simply whose name appears on the account.

For example, imagine an elderly parent has **£100,000 in savings** and adds their adult child as a joint account holder so they can help manage the money in an emergency.

The account earns **£4,000 in annual interest.**

If the parent contributed all the money and remains entitled to the entire balance and interest, the interest would generally be taxable on the parent, not the child.

The child does not automatically become liable for half the interest simply because their name appears on the account.

Why might HMRC still contact you?

Banks and building societies routinely report savings interest information to HMRC.

Where an account is held jointly, HMRC's records may not always reflect the actual ownership arrangements.

This can lead to enquiries or adjustments to your tax position, particularly if the interest reported against your name appears to exceed your Personal Savings Allowance.

The current Personal Savings Allowance is:

- **£1,000** for basic-rate taxpayers.
- **£500** for higher-rate taxpayers.
- **£0** for additional-rate taxpayers.

For example, if HMRC attributes £2,000 of interest to you from a joint account, it could appear that you have exceeded your allowance even if the money and interest belong entirely to another account holder.

If this happens, you should explain the ownership arrangements and provide supporting evidence.

Married couples are treated differently

Special rules generally apply to spouses and civil partners who hold savings accounts jointly.

HMRC normally treats the interest as belonging 50% to each spouse, regardless of who originally deposited the money.

For example, a married couple has £80,000 in a joint savings account earning £3,200 in annual interest.

Under the standard rules, each spouse would generally be treated as receiving £1,600.

However, if the money is beneficially owned in different proportions, the couple may be able to make a formal declaration to HMRC so that the interest is taxed according to their actual ownership shares.

This can be particularly relevant where one spouse pays a higher rate of tax than the other.

Importantly, the declaration must reflect genuine beneficial ownership. Couples cannot simply choose whichever split produces the lowest tax bill.

Could joint accounts affect inheritance tax?

Joint accounts can also create questions when calculating inheritance tax.

For inheritance tax purposes, the important consideration is generally who beneficially owns the money, rather than whose name appears on the account.

For example, if a parent deposits £150,000 into a joint account with their child but retains full beneficial ownership, the money would generally remain part of the parent's estate for inheritance tax purposes.

Adding the child's name to the account does not automatically transfer half the money to them or reduce the parent's inheritance tax exposure.

This is an important distinction for families using joint accounts as part of their financial or estate planning.

How can you avoid unnecessary tax complications?

If you hold a joint savings account, particularly with a parent or another family member, consider taking... a few practical steps.

- **Document who owns the money.** Keep a written record confirming each account holder's beneficial entitlement.
- **Retain evidence of contributions.** Bank statements and transfer records can help establish where the money originated.
- **Review interest reporting.** Check that savings interest included in your tax records reflects your actual entitlement.
- **Respond to HMRC enquiries promptly.** If interest has been incorrectly attributed to you, explain the position and provide supporting documents.
- **Review arrangements for married couples.** Where beneficial ownership is unequal, consider whether a formal declaration to HMRC is appropriate.

A simple written agreement can help establish the intended ownership of the funds, although the actual transactions and arrangements must support what the agreement says.

Final thoughts

Havingyournameonajoint bank account does not always mean you are liable for tax on the interest it earns.

For family members sharing accounts for convenience, the interest will generally be taxable according to who beneficially owns the money. Married couples and civil partners are subject to special rules that normally divide the interest equally unless a valid declaration applies.

The key is to distinguish between having access to money and actually owning it.

Keeping clear records of ownership can help prevent unnecessary income tax liabilities, resolve HMRC enquiries and avoid complications when dealing with inheritance tax.

If you share a savings account with a spouse, parent or family member, reviewing the ownership arrangements now could save time, confusion and potentially unnecessary tax in the future.

Interesting Reads

Best Payroll Software for Small Businesses in the UK

Choosing the right payroll software depends on your business size, budget, accounting system and payroll requirements.

How to Build a Capitalization (Cap) Table for Your Startup?

A capitalisation table (cap table) is a record of who owns shares in a company and how ownership can shift as the business raises funding or gives equity to employees.

Investment Tax Reliefs in the UK: An Overview

Investment tax relief refers to tax benefits available to eligible investors who invest in qualifying companies or schemes. In the UK, the Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) offer tax relief to eligible investors in qualifying companies, while Venture Capital Trusts (VCTs) offer relief to eligible investors who subscribe for qualifying shares in a Venture Capital Trust.

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