A straightforward, easy-to-use outline of the UK tax system, for employed and self-employed members alike.
Tax Savings Guide
A straightforward, easy-to-use outline of the UK tax system, for employed and self-employed members alike.

Artists’ Union England (AUE) is grateful to the Musicians’ Union for the use of this Guide. Please note this Guide is specifically written with musicians in mind and is distributed to MU members as part of the MU Members’ Handbook. However, as a visual, applied, and/or socially engaged artist, much, if not all, of the information will be relevant to you as well. If as an AUE member you have any questions with regards to tax issues raised in this Guide, then please contact AUE at info@artistsunionengland.org.uk, with a subject line of ‘Tax advice’ and we will help you to take the matter further.

Taking care of tax — some useful tips

1. If you are just starting semi-pro or professional work, you must register with HMRC as being self-employed. Failure to do so can incur a penalty.

2. Be honest with the tax authorities. It pays in the long run. Do not think that you can fool HMRC, as a high percentage of Tax inspectors are top class university graduates.

3. When you write a letter to the tax authorities, keep a copy for future reference.

4. Get receipts for everything that you pay out. The tax authorities are entitled to see a receipt for everything you claim for.

5. If you are in doubt about any expenses/allowances, check and then claim them. Give the full details to HMRC and let it decide — that is its job.

6. Do not ignore communications from HMRC — it will not go away and can get quite nastily persistent. This will only lead to estimates of your income being made, which always ends up with you paying excessive tax.

7. Do not write nasty letters to the HMRC, even if a mistake has been made, as it will not get you anywhere. A polite letter will grant you a far more sympathetic level of consideration.

8. In spite of all you have heard about Tax inspectors, most are very fair people. They are there to ensure that you pay the correct amount of tax — no more, no less. In case you wondered, they do not get paid commission!

9. It is well worth putting some money aside as you receive it to cover your tax bills when they do arrive.

This MU Tax Savings Guide was produced in association with HW Fisher & Company, Chartered Accountants.
The tax laws have undergone a major overhaul and large chunks of legislation were rewritten in, supposedly, more straightforward and understandable language. However, some of the old terminology and types of income still live on. This section of the Handbook will concentrate on two types of income relevant to musicians. The first type is income from an employment or office — for example, as an employee of the BBC in one of the orchestras. This type of income is known as ‘earnings from employment’.

The second type of income relevant to musicians is income of self-employed people such as a self-employed musician, referred to as ‘trading income’ and includes income from trades, professions and vocations. The potential tax saving opportunities for musicians with earnings from employment are less than for musicians with trading income, who are able to claim a wide range of expenses against their income and will generally pay any tax due twice a year through the Self Assessment system rather than having tax deducted at source by their employer.

Historically, HM Revenue and Customs (HMRC) has been keen to categorise as many people as possible as being employed rather than self-employed. The exact rules to determine the position are complex. An overview of the main considerations is available at gov.uk/employment-status/employee. Alternatively, you should seek professional advice. In exceptional circumstances, some musicians may qualify for what is termed ‘Reserved Trading Income Status’ (previously known as ‘Reserved Schedule D Status’). They will continue to be taxed on income from theatrical work as self-employed so long as tax liabilities are properly discharged and there is no break in their employment.

**Employment Status Anti-Avoidance ("IR35")**

Where an individual supplies personal services via a Limited Company (or more rarely a partnership), HMRC can invoke anti-avoidance legislation (known as "IR35") which effectively treats income arising from the engagement as Employment Income. If successful, HMRC will require the intermediary Company to account for Tax and National Insurance Contributions (including the Employers NIC). It can also mean that certain expenses incurred in fulfilling the engagement no longer qualify for a tax deduction. HMRC will be successful in pursuing these extra liabilities where, but for the interposition of the Company, the relationship between the Engager and the Worker is “master/servant” — i.e. an employment. Care is needed before any decision to supply services through a Company or Partnership is taken. Professional advice is recommended.

With effect from 6 April 2017, some changes were introduced to the IR35 rules which purport to affect individuals supplying their services through intermediary companies or partnerships to “public bodies” (as defined). This is most likely to affect services supplied to schools via local authorities or to services supplied to the BBC. If you are in any doubt as to whether you are supplying services to a “public body” there is guidance on HMRC’s website at gov.uk/guidance/off-payroll-working-in-the-public-sector-reform-of-intermediaries-legislation.

The effect of this change is more widely reaching than originally envisaged. The main effect is that, in a situation where IR35 does apply to the services, it is now the responsibility of the public body to account for tax and national insurance in relation to the engagement. Understandably, the public bodies are reluctant to take any significant risk in relation to this matter and therefore in any situation where the employment status of the individual supplying the services is unclear, they frequently insist on deducting tax and national insurance at source from the relevant income.

Although HMRC has produced an employment status test (called CEST) to assist in determining the employment status of a particular contributor, many commentators think that this is heavily skewed towards producing the “employed” or possibly “unable to determine” results. Where either of these results is obtained under the test, individuals will inevitably find that the public body has decided to deduct tax and national insurance contributions at source before making the contractual payment. HMRC has gone on record to say that the IR35 rules are merely “deeming
for tax purposes” such that a test which produces the result “employed” would not necessarily be reliable for employment law purposes. So the determination does not necessarily bring legal rights. Perhaps a slightly less obvious consequence of this new legislation is that public bodies are now looking at all of their “off payroll” engagements (i.e. not just those involving companies or partnerships but those where the engagement is directly with an individual) and applying the CEST test to determine employment status for tax purposes. In turn, this means that many freelance individuals will also find that their income from contracts with public bodies is being subjected to tax and national insurance deductions. Although it is possible to challenge the outcome of a CEST determination, the public bodies are understandably reluctant to enter into detailed negotiations on these matters and will invariably direct the contributor to take the matter up with HMRC.”

What happens about my tax and National Insurance if I am employed?

If you are employed, your employer is responsible for deducting Income Tax and National Insurance from your salary via the PAYE system. Your employer then pays this over to HMRC on your behalf.

— The amount of Income Tax deducted from your salary is determined by using your PAYE Coding Notice. HMRC issues notices to employers to adjust the level of tax paid for any benefits you may receive, higher rate tax due on other income you receive and any relief

---

Self Assessment in practice

The example below shows how Self Assessment actually works:

Assume the 2015/2016 tax liability is for £4,000 and no payments on account have previously been made. This amount (£4,000) is payable by 31 January 2017. At the same time, a first payment on account for 2016/2017 will be due and this is calculated as being half of the full liability for the previous year, i.e. £2,000.

Therefore, a total of £6,000 is payable by 31 January 2017. A second payment on account for 2016/2017 is due on 31 July 2017 and this is also calculated to be half of the previous year’s liability, i.e. a further £2,000. If then the final liability for 2016/2017 were calculated at, say, £4,500, a ‘balancing payment’ of £500 will be required by 31 January 2018 (i.e. £4,500 less the two payments on account of £2,000). In addition, a first payment on account for 2017/2018 of £2,250 will be due (i.e. half of the previous year’s liability of £4,500).

So the total amount payable by 31 January 2018 will be £2,250 (£500 plus £2,250). A second payment on account for 2017/2018 of £2,250 will be due by 31 July 2018, and so the cycle continues. In certain circumstances — for example, if your income is falling — it is possible to apply for the payments on account to be reduced, on the basis that you expect next year’s liability to be less, but there is a risk of an interest charge if you get your figures wrong and the reduced instalments do not then cover the liability.

However, by the time you would need to make the first payment on account (31 January), you would likely have a reasonable idea of your expected income level during that year and would normally know the actual level by the time the second payment is due (31 July).

In the current climate, you may be experiencing greater cashflow problems. If so, you should approach the Revenue as early as possible, to arrange ‘Time to Pay’. You will have to provide more information, such as a cashflow forecast and maybe a summary of your income and expenses, but it will mean that you won’t be chased or penalised for arrears of tax — provided you keep to the payment schedule you agree with the Inspector. Ignoring a tax problem makes it worse, not better.
for deductions, such as making pension payments (see p199).

— Class 1 National insurance will be deducted from your salary at a rate of 12% on income between the lower limit of £8,164 and the upper limit of £45,000. An additional 2% is payable on all salary above £45,000.

— You can no longer ‘opt out’ of the State Second Pension to pay a lower rate of National Insurance.

— You may still be required to complete a tax return if your total taxable income is above the higher rate threshold and you have other income, such as bank interest or dividends. Any additional tax due would be payable on the 31 January following the end of the tax year, e.g. 31 January 2018, for the year ended 5 April 2017, with the tax return also due for filing by this date.

— As an employee you can only claim expenses against your income that are wholly, exclusively and necessarily incurred in the duties of employment and HMRC is very strict on what expenditure does qualify.

— In certain circumstances, commission paid to an agent is deductible for employees. You may wish to seek professional advice.

**What happens about my tax and National Insurance if I am self-employed?**

If you are self-employed, you are responsible for your own tax and National Insurance. Even if you are paying Class 1 contributions as an employee, you have to pay Class 2 and Class 4 contributions on self-employed income, subject to profit levels. This means:

— Telling your local tax and Social Security offices you are in business by registering as self-employed. Failure to do so incurs a penalty, based on the contributions missed and the reasons for registering late. Registration can be done online [gov.uk/new-business-register-for-tax](http://gov.uk/new-business-register-for-tax)

— Reporting all your income to the tax office each year so that they can assess the tax due on it. Once you have registered, HMRC will send you a tax return each year.

— Paying the tax: for the first tax year in which you become self-employed you will not usually have to pay the tax due on profits until 31 January following the end of that year. Subsequently, you will then normally pay it in two instalments, on 31 January and 31 July of each year.

— Paying Class 2 National Insurance Contributions as a self-employed person, is now done under self-assessment. However, as a result of this change you may need to accelerate payments to claim some benefits, maternity allowance for example. If so, government will need to contact Jobcentre Plus.

The Class 2 rate is £2.85 per week. The small earnings exemption can be granted to self-employed people who have an income below the low earnings threshold of £6,025. However, they may wish to continue making the contributions in order to preserve their state benefit entitlements.

— The Class 4 contribution is currently levied at a rate of 9% on self-employed profits between £8,164 and £45,000 per annum, with an additional 2% payable on all profits above £45,000. It is assessed as part of the tax calculation and paid in the same way, at the same times. It does not increase or affect entitlements in any way. However, it may be deferred or exempted if you also have substantial employment income or are beyond state retirement age.

Being self-employed also affects:

— Your entitlement to Social Security benefits, such as unemployment benefit.

— Other rights and duties, e.g. under the Employment Protection Acts.

— Your liabilities to the public for the work you do.

You can find more information about self-employment in an HMRC booklet entitled *SE1 Thinking of Working For Yourself?*, which you can download from

**Self Assessment and the current year basis**

The Self Assessment system consists, essentially, of two stages:

- Firstly the completion of a tax return detailing all taxable income for the tax year and claiming appropriate allowances and reliefs, and;

- Calculating the tax payments required based on the details declared on the tax return. If a paper tax return is submitted by 31 October following the end of the tax year, HMRC will calculate the tax for you.

It is now possible to complete and submit your Self Assessment tax return online and details can be found at [gov.uk/self-assessment-tax-returns/sending-return](https://www.gov.uk/self-assessment-tax-returns/sending-return)

Filing online means your tax will be calculated automatically, even after 30 September. The income tax year runs from 6 April to 5 April the following year. So the tax year 2016/2017 is from 6 April 2016 to 5 April 2017. The Self Assessment tax return consists of eight pages of standard information with supplementary pages issued for other income and gains. For example, there are other pages for employment and self-employment. A potential trap here is that it is the taxpayer’s responsibility to ensure he or she obtains and completes the correct supplementary pages, as appropriate.

Ring the HMRC Orderline (0300 200 3610) for any additional supplementary pages you require or download them from [gov.uk/self-assessment-forms-and-helpsheets](https://www.gov.uk/self-assessment-forms-and-helpsheets). There is no fee for filing through the official website: beware of unofficial sites that try and charge.

**Employees**

Employees are generally taxed on earnings from employment received during the ‘current’ tax year. Details of such income are shown on forms P60, if you are employed at the end of the tax year, and forms P46, if you leave employment during the year. You may be paid expenses or provided with taxable benefits by your employer and these may be shown on the form, P11D.

**Self-employed**

Self-employed musicians are also taxed on earnings in the ‘current’ year, generally by the income shown in accounts that end in the ‘current tax year’, e.g. the year ending 30 June 2016 is assessable for the year ended 5 April 2017. However, there are special rules to deal with the first year of self-employment (commencement) and the year of cessation of trading income.

**Commencement**

Regardless of the date you choose to make your first accounts up to, you will always be assessable in the year you begin trading on income, from the date of commencement up to the next 5 April.

For example, if you commenced trading on 1 July 2011 and you make your first accounts up to a full year to 30 June 2012, you will then be assessable in 2011/2012 on profits from 1 July 2011 to 5 April 2012:

E.g. Business commenced 1 July 2011 and profits are:

<table>
<thead>
<tr>
<th>Year ended</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 June 2012</td>
<td>£10,000</td>
</tr>
<tr>
<td>30 June 2013</td>
<td>£12,000</td>
</tr>
<tr>
<td>30 June 2014</td>
<td>£14,000</td>
</tr>
</tbody>
</table>

The taxable amounts will be:

Tax year 2011/2012 £10,000 x 279/365 = £7,644

Tax year 2012/2013 £10,000

Tax year 2013/2014 £12,000

Tax year 2014/2015 £14,000

* Time apportioned to cover the period 1 July 2011 to 5 April 2012.

It is apparent from this example that part of the profits for the first year’s trading are taxed twice in 2011/2012 and 2012/2013. This anomaly may be corrected by claiming Overlap Relief, which is available at cessation or a change of accounting date. In this example, the relief equates to the amount taxable in 2011/2012, i.e. £7,644. You are not obliged to make your first accounts up for a full year and so may choose a 5 April year end for simplicity. However, there may be cash flow benefits in choosing a later year end.

**Cessation**

At the point at which your self-employment ceases, all untaxed profits since the last fully taxed accounting period will
be brought into assessment during the current tax year with any unused Overlap Relief being deducted from the assessable figure.

**Time limits**
There are strict time limits for the filing of tax returns, with fixed penalties automatically enforced for failure to adhere to the respective due dates. Self Assessment will financially punish taxpayers whose tax affairs fall into arrears. Tax returns usually have to be filed with HMRC by 31 January following the end of the year of assessment, for example 31 January 2018 for the tax year ending 5 April 2017.

Late payment of tax incurs the following:
— Interest automatically charged on all overdue tax (currently 3% per annum calculated daily).

— Automatic 5% surcharge on late payment of tax over 30 days after the normal filing date (usually 2 March following the tax year).

— A second automatic 5% surcharge on tax paid over six months after the normal filing date.

Other penalties are:
— Failure to deliver the tax return by the due date (usually 31 January) produces an automatic late filing penalty of £100.

— Daily fines of up to £10 for continued delays of between three and six months.

— A further penalty of £100 arises if the return is still outstanding in six months’ time.

— Penalty for failing to notify HMRC of the commencement of self-employment within three months of the end of the month in which you start.

**Simple record keeping**
HMRC has produced a guide which includes details on the bookkeeping requirements for the purposes of Self Assessment. It can be obtained from HMRC offices or downloaded from gov.uk/keeping-your-pay-tax-records/

The law states that you must keep all records regarding your self-employment for five years after the filing date. For example, you must keep your 2012/2013 records for five years from 31 January 2014. Keep all receipts in a safe place, filed in a logical order.

Also try to pay for as many things as possible by cheque or credit card — this serves as a useful double-check for business receipts and expenses, and acts as a receipt in case you lose the original. Incidentally, a separate bank account is also a very useful aid to your accounting. If you want to be more efficient in recording expenses, then try using a multi-column book. Use the different columns to detail separate expenses, for example a column for petrol, a column for clothes, and so on. You can easily add up the columns to see how much you have spent on each. Better still, use a computer package.

Although any expenses come under the watchful eye of the Inspector of Taxes, certain ones are often targeted. Motor expenses is a favourite. If you use your car for both business and personal reasons, it is essential to have a car mileage logbook where you record details of the journeys. Then if you want to claim part of your car expenses against your tax, it will be easy to work out the proportion of business to private mileage. HMRC has indicated that car expenses may be scrutinised under Self Assessment so it has become imperative that a record of business and private journeys is maintained. Incidentally, you will need to keep at least all the above records even if you pay an accountant to actually prepare and submit your accounts for you for tax purposes.

Your records must be accurate, because you are 100% responsible for presenting correct accounts to the tax authorities, no matter who prepares them for you. Most people do not realise that. They pay the accountant, thinking that he or she will carry the can for them if the tax authorities discovers something odd in the figures. This is not so. Your accountant can be of great help if you do get into trouble, but you are actually the one who will get it in the pocket!

In addition to making preparation of your tax return and dealing with queries easier, keeping proper records means you are
not exposed to the penalty for not doing so, which can be as much as £3,000.

**Accounts preparation work for tax purposes**

All self-employed individuals must complete the self-employment pages in the Self Assessment tax return. Under Self Assessment, it is not necessary to send in copies of your actual accounts to HMRC. However, you do have to disclose your income and expenses under the categories printed on the return form (for example ‘premises costs’ would include rent, business rates, water rates, light, heat, power, insurance for premises and any other costs that are designated for business use). There is an adjacent column for entering any disallowable element of the expense figure included in the main column, such as for private usage of a vehicle.

**Simple tax accounts**

HMRC has simplified the accounting requirements for businesses, either full or part-time, where total business turnover before expenses is under the VAT registration threshold. All you need to return is:

- Your gross business turnover.
- Your total allowable deductions (business purchases and expenses and capital allowances).
- Your net profit or loss.

It is essential to keep a detailed list of expenses and purchases for business purposes, in case of a query from the Tax Inspector. Beware! HMRC seems to be targeting small businesses.

**Expenses**

The Tax Acts state that, as a self-employed individual, you are entitled to claim for expenses incurred ‘wholly and exclusively... for the purpose of trade’. The tax authorities will only allow expenses which come within this definition. Luckily, this does cover most of the expenses you are likely to come across. If you can demonstrate to the tax authorities that the expenditure was incurred as a direct result of your work as a musician then he will be quite happy.

There are, however, a few borderline cases where you may have to negotiate. For example, stage clothes are a very grey area, and could fall under the notion of ‘duality’, as they have a duality of purpose. Some inspectors have in the past claimed that clothes were not allowable as they served a dual purpose of being needed to perform the job and protecting the wearer’s modesty. They have even taken this to court and won. However, some inspectors will allow clothes as long as they are only used on stage. Clearly, this is one area in which you would have to justify the expense. Therefore, jeans worn on stage would be difficult to justify. Let us look at some of the more usual types of allowable expense. Although it must be pointed out that this is by no means an exhaustive list and you may well think of more along the same lines incurred in the course of your work:

**Motoring expenses**

These include road tax, insurance, oil, petrol, servicing, repairs, spares, cleaning materials, tyres, AA/RAC subscription, interest charged on a loan for vehicle purchase, car hire, garage rent (this must

---

**Appealing against the tax authorities**

With a system of Self Assessment, a general right to appeal against assessments is no longer necessary. Circumstances will arise, however, when appeals are required, such as when the Self Assessment is amended by HMRC or a Discovery Assessment is issued.

If you disagree with the figures of the tax authorities, you have 30 days in which to appeal against them.

A late appeal will usually be accepted if there are reasonable grounds, such as sickness or absence on holiday.
actually be paid out, i.e. you cannot claim for the garage on the side of your home). Motoring expenses will only be allowed on the business part of your mileage. That is why it is suggested that you keep a mileage logbook. For example:
— If total mileage is 10,000, and total motoring expenses = £1,000
— If total business mileage is 5,000, then allowable motoring expenses = £500

It is also possible to claim what are known as capital allowances, which reflect the depreciation of the vehicle. Please see below.

**AMRs (Authorised Mileage Rates)**
As an alternative to recording all motoring expenses, HMRC will accept a far simpler method for claiming motoring expenses. Currently, the allowances are:

<table>
<thead>
<tr>
<th>Category</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cars and Vans</td>
<td></td>
</tr>
<tr>
<td>First 10,000</td>
<td>45p per mile</td>
</tr>
<tr>
<td>Business Mileage</td>
<td></td>
</tr>
<tr>
<td>Each additional</td>
<td>25p per mile</td>
</tr>
<tr>
<td>Passenger</td>
<td>5p per mile</td>
</tr>
<tr>
<td>Motorcycles</td>
<td>24p per mile</td>
</tr>
<tr>
<td>Bicycles</td>
<td>20p per mile</td>
</tr>
</tbody>
</table>

If you opt for this scheme, you simply have to record all business mileage. No other motoring expenses or capital allowances (for the vehicle) may be claimed. There are two points to bear in mind with the AMRs scheme:

1. Your turnover must not exceed the VAT registration threshold, which is £85,000 from 1 April 2017.

2. You are unable to chop and change from one scheme to the other. On a change of vehicle, you must either switch to the above basis or claim all motoring expenses and apportion motoring costs between business and private trips, to arrive at a figure for business motoring expenses.

In terms of simplicity, the AMRs have much to recommend them but a taxpayer must make a decision as to which method to adopt, with regard to his or her individual circumstances.

**Ordinary clothes**
As highlighted, this is a grey area, but the official line is, ‘the cost of ordinary everyday clothing is not allowable — even if it is bought specially for business use’.

**Footwear**
The same rules as clothes apply.

**Overnight accommodation**
Where the trip necessitates one or more nights away from home, the hotel accommodation and reasonable costs of overnight subsistence are deductible. The costs of lunches are not normally allowable, unless you are travelling on business (for example, you are on a train from London to Edinburgh), in which case modest expenses may be deducted.

**Travel**
Travel to and from a regular gig at a regular venue will not usually be classed as business mileage for tax purposes. The reason for this is that the Inspector will say that as you are at the venue so often, your trade is carried on from there, and not from home. You must convince him that although you do this gig quite a lot, your business as a musician is based at home. The best way of doing this is to show that you have other gigs elsewhere. This can be quite difficult.

**Stationery**
Envelopes, paper, printing costs, letterheads, business cards, pens, pencils, photocopying, accounts, books, etc, and small items of office equipment (files, rubber stamps, etc). Large items of equipment (word processors, desks, chairs and so on) come under Capital Allowances, which are dealt with later on.

**Postage**
The Post Office will give you a receipt upon request.

**Telephone rental charge**
If half of your calls are for business, claim 50% of the rental charge against your tax. Use this formula to calculate your claim for mobile phones.

**Telephone calls**
Unlikely to be allowed 100% so do restrict your claim to the actual or an approximate business percentage.
Instrument insurance

Instrument repairs

Cleaning materials for instruments
Instrument replacements
Strictly speaking, you should get a Capital Allowance for instruments but small, inexpensive ones will usually just be allowed as an expense.

Music
All types, for example manuscripts, sheet music, and arrangements.

Car parking charges

Theatre tickets
HMRC will often allow the cost of theatre and musical tickets for you only.

Advertising
For example, leaflets or online advertisements for musicians’ work or for second-hand instruments.

Laundry and dry cleaning
For your stage clothes only.

Publicity material
For example, badges, photographs, posters, flyers, car stickers. In addition, do not forget to claim the cost of photo sessions.

Hire of...
Rehearsal rooms, recording facilities, studios, instruments and equipment.

Commissions
Paid to agents, managers, etc.

Accountancy fees

Subscriptions to business magazines
For example, Music Week, Guitarist, Gramophone, Rhythm.

Solicitors’ fees
For example for recovering debts and drawing up contracts.

Bad or doubtful debts
For example, if you agree to do a gig but never get paid for it, after all reasonable attempts at recovery, your profit for that year is reduced by that amount, if you calculated income on an invoice not cash basis.

Bank charges
Those which have been paid in connection with your business. These are easily calculated if you have a separate bank account.

Interest charged on loans
For example, for the purchase of equipment. You will need to get a Certificate of Interest Paid from whomever you have borrowed the cash, to send to the tax authorities.

Small consumable items
For example, strings, reeds, drumsticks, valve oil, resin.

Contact lenses
Where required for reading music, although this may be challenged.

Some dental work
For example, cosmetic or remedial, as with brass or woodwind players. Again, this type of work would be likely to be challenged by the Tax Inspector.

Gifts advertising your services
For example, pens, diaries, calendars and matches. The cost of each must not exceed £50, otherwise the whole amount will be disallowed.

CD/Cassette/DVD/MP3 player
You may have to convince the Tax Inspector that you need to use these items of equipment ‘for the purpose of trade’ — for example, to learn new pieces of music. However, the Tax Inspector will almost certainly only allow you to claim a part of the cost for business purposes.

CDs/cassettes/DVDs/MP3s
You will probably have to argue with the Tax Inspector over the allowable amount. Do not be frightened to argue, but do not be too greedy.

Professional subscriptions
Annual subscriptions of a professional nature. (Please refer to the item MU Subscriptions — An allowable deduction? on the next page).

Other inexpensive items of equipment
For example, music, instrument and microphone stands. Expensive equipment comes under Capital Allowances, which is covered later on in this section of the Handbook.
Now we come to a couple of expenses that are a little more complicated...

Use of your home as an office
According to the tax authorities, if you set aside an identifiable part of your home and use it solely for business (e.g., if you use a room or part of one only as an office) then a proportion of running costs, such as insurance, heat and light and mortgage interest, is allowable. If the part of the property used for business purposes is also used for some other purpose at the same time, then no deduction may be due. If the part of the property used for business is used exclusively for this purpose, for only part of the time, you can claim part of the running costs, apportioned by reference to the time it is so used. It is important to note that if you use part of your home exclusively for business, you may be liable for Capital Gains Tax when you come to sell it. There are different views on this.

Wages
For example, to road crew, secretary etc., if you pay wages to anyone on more than a strictly casual basis, you are going to become involved with starting a full PAYE scheme, and deducting tax, National Insurance Contributions and the like. However, there is one very good tax saving tip — employ your husband or wife as a secretary/accounts assistant/telephonist. But it is only worthwhile if he or she is not employed elsewhere, or does not have a large amount of additional income. Your partner is allowed to earn a certain amount each week before paying any tax or National Insurance contributions.

Therefore, you can pay him or her, say, £50 a week for their services without having to set up a PAYE system, if she or he has no other income to speak of. However, they have got to work for you and the wages must be paid into their own account.

There are five important conditions:
1. Your partner must actually work for you, and the wage must be commercially justifiable.
2. You must actually pay your partner the money, and not just make it a bookkeeping entry. Therefore, it should be paid into a separate account in their name.
3. Your partner must remember to declare the income on his or her own tax return.
4. You may be asked by HMRC to specify your partner’s exact duties so you must make reasonable evidence of his or her work available.
5. You have no other employees earning more than £100 a week.

MU Subscriptions — an allowable deduction?
A number of reports have been received of musicians who are self-employed, and are classed as such for HMRC purposes, having difficulties in offsetting their MU subscriptions against their taxable income.

We understand that some local Tax Inspectors are quoting Section 343 ITEPA 2003 as the reason for this decision. This section is inappropriate, for while it severely restricts the fees and subscriptions that can be claimed, it relates only to persons taxable as employees. The employed person will need to show that it was necessary to incur this expenditure to carry on his/her employment. Self-employed musicians are not covered by this category and should continue to claim their subscriptions as before, and will need to show that this expenditure was wholly and exclusively incurred for business use.

Capital Allowances
These are really for ‘wear and tear’ on ‘machinery and plant’, which includes vehicles, reference library, office furniture, computers, etc. These allowances can seem a bit confusing until you know your way around them a little better, but they are important.

Capital Allowances: Plant and Machinery Allowance Regime; Special Rate Pool
A new regime was introduced for capital allowances on plant and machinery, on 1 April 2012 (corporation tax) and 6 April 2012 (income tax):
— The main rate of Writing Down Allowances (WDAs) is 18%.

— The rate of WDAs on life-long assets is 8%.

— A new annual investment allowance (AIA) has been introduced for the first £200,000 (from 1 January 2016 onwards) of expenditure on most plant and machinery each year, giving a 100% allowance.

— Where more than £200,000 is spent in a chargeable period the excess will qualify for WDAs in the normal manner. This AIA is intended to complement any existing 100% first-year allowance (FYA) schemes.

— Any expenditure that qualifies for 100% allowances under separate schemes has been unaffected by the introduction of the AIA; and

— If the main pool is £1,000 or less, businesses can claim a WDA of any amount up to £1,000.

In addition, a new 8% ‘special rate’ pool is also kept, into which capital expenditure on the following assets will be allocated:
— Any unrelieved expenditure in a pre-FA 2008 long-life asset pool;
— Expenditure on the thermal insulation of a building (previously, such expenditure qualified for 25% allowances, but only when incurred on an industrial building); and
— Expenditure on certain ‘integral features’ (there is a list of these assets, which includes electrical systems, water and heating systems, lifts and similar fitted items).

As for the main pool, where the unrelieved expenditure in the ‘special rate’ pool is £1,000 or less, businesses can claim a WDA on any amount up to £1,000. This is an intricate area of tax and we advise that you seek advice where necessary. Allowances are not expenses — if you sell the asset you still need to account for the proceeds by deducting them from relevant pool, so the amount that can be claimed reduces in later years or a tax charge can arise.

What happens when you send in your tax return?

When you submit your tax return, HMRC will process it. This means that the figures on your tax return will be inputted into the Self Assessment computer system. At this stage, there will be checks made for obvious errors, such as the figures not adding up, but the return will not be looked at closely. If you have submitted a paper return before 31 October you will be sent a calculation of the tax due. If you calculated the tax due yourself you will either receive confirmation that the return has been ‘processed without need for correction’ or you will be sent a calculation indicating where the figures differ from yours.

Enquiries into your tax return

HMRC usually has 12 months from the submission of the form to open a formal enquiry into your tax return. This is sometimes referred to as a Section 9A enquiry. The time limit can be longer than 12 months if the return is submitted late. Most enquiries are opened because the Inspector knows or suspects something is wrong with the return. There are also a number of enquiries each year based on the risk of an error rather than suspicion. The Inspector will never disclose whether the enquiry is based on risk or if he/she knows or suspects something.

If an Inspector of Taxes opens a Section 9A enquiry he will usually write to you and your accountant, if you have one, setting out his concerns and asking a series of questions or requesting documentary evidence of entries on your return. Once the enquiry is complete, the Inspector will tell you that he or she wants more tax, that nothing needs changing or, occasionally, that you have paid too much tax.

If more tax is due, interest will be charged and the Inspector may also impose penalties, which can amount to 100% of the extra tax or more if there is an international element. If, when looking at your return for a particular year, the Inspector of Taxes finds a serious error in your figures and feels that this may have occurred in previous years, he is able to issue a ‘discovery assessment’ for earlier years, even if the normal ‘enquiry time limit has passed’. If HMRC finds your returns are wrong, it will seek to recover any additional tax that may be due,
possibly also with interest and a penalty. If you receive notice of a Section 9A enquiry and you do not have an accountant, you should seriously consider appointing one who is experienced in this area. The professional costs in dealing with an enquiry from HMRC can quickly mount up. Many accountants can arrange insurance to cover such costs.

**MU Professional Expenses Insurance**

MU members have access to a tax investigation insurance benefit, for which no registration is required, that covers a number of types of HMRC enquiries. For full details, please turn to pt80 of this *Handbook*.

**Dealing with an enquiry**

A few ideas that may help you survive an enquiry relatively unscathed:

- Take your accountant with you or, better still, let him or her handle it alone.

- Effective handling of an investigation can make an enormous difference in the time taken and the amount of tax or penalties you have to pay.

- Do not be obstructive. You will only make things worse for yourself. Try to find out what the Inspector’s concerns are and alleviate them so as to head off the enquiry.

- Do not try to fob the Inspector off. It is essential that you take him or her seriously and provide all of the relevant facts and details.

- If you are being investigated, you had better get used to the idea that this may well also include an investigation of your spouse, family and personal affairs.

- If you are asked for your personal bank statements, review them and analyse them before submitting them to the Inspector so that you can provide analysis with the statements. Do not simply hand over any records that are requested, provide summaries and references to help the Inspector understand.

- It is usual for the Inspector to ask for a meeting with you.

- Before the meeting, talk with your accountant and get him or her to scrutinise your information and question you on the pointers the Inspector is likely to raise.

- Make sure that you are familiar with your own documentation.

- The Inspector will usually require capital statements. These should show your assets and liabilities from a few years ago to the present. The aim is to show the Inspector there are no undisclosed sources of income or assets. Do not wait for the Inspector to request them and make sure to include any cash balances.

- HMRC will treat any unexplained receipts, deficits on cash accounts or unsubstantiated receipts as additional income, so make sure all items are properly explained.

- Go through your living expenses for the current year and compare them with expenses in previous years, making allowances for any special factors, such as holidays, new kitchen units etc. Any major differences need to be explained.

- If HMRC start an interview with the words ‘you are not obliged to say anything but...’ terminate it immediately and call a solicitor straight away! HMRC prepares notes of meetings and you should be entitled to a copy.

- If you do strike a compromise with the Inspector, then do consider the effects of interest and penalties on the total payable.

- As a general rule, it is rarely, if ever, advisable to formally agree a settlement at interview.

- Always give yourself time to go away and think about the Inspector’s proposals. You may perhaps have forgotten that you received a loan from a relative during the period under investigation or you were sick and received state benefits.

- Always agree a settlement in writing, either via your accountant or yourself.
— The maximum penalty is 100% of the tax lost. This can be reduced, depending on the circumstances leading to the error.

— You do not have to accept what you are told by the Inspector, but you must try to discuss how the penalty level is arrived at. You may be able to persuade the Inspector to add more weight to some of the points that are in your favour.

— If you are worried about incurring additional accountancy fees, remember that any tax and penalty could far exceed them.

If you prepare your case well, you could minimise accountancy fees as well as tax and penalties. Please note, it is always possible that the Inspector may return your books with a letter saying that he is entirely satisfied with your records and no amendment is necessary — it really does happen!

Value Added Tax
Registration for VAT can be compulsory or voluntary. Once registered, you can then claim back the VAT which you are charged on things like telephones, instruments, etc., that are used in your business, but it means that you will also have to charge VAT on your fee for every gig, arrangement, etc., and handle all of the considerable bookwork involved. It is wise to first consult an accountant, who will examine and explain the benefits and pitfalls of VAT registration and the accounting system to be employed. Beware of the implications of Scale Charges for motoring costs if you reclaim VAT on petrol.

VAT Flat Rate Scheme
This scheme is for businesses, individuals etc. with an annual vatable turnover of £150,000 or less and allows for a simplification of the calculations required so that VAT liability can be determined as a percentage of turnover. It can be beneficial for small businesses. However, the Flat Rate Scheme percentages increased with effect from 1 April 2017 and the scheme is less beneficial thereafter.

Registration
Voluntary
As a musician, provided that you are making supplies of services by way of business in the UK, then that is sufficient to register for VAT in the UK on a voluntary basis, even if your income is only a few thousand pounds.

Compulsory
If VATable income exceeds the current VAT registration threshold of £85,000 (with effect from 1 April 2017) in any 12-month period or less, VAT registration is compulsory. It should be noted that failure to notify HMRC of a compulsory requirement to register for VAT may result in a late registration penalty. However, if your income is subject to major fluctuations and only exceeds the threshold for a short period, it is possible to arrange not to have to register for VAT. To do this, you must notify HMRC of the breach of threshold and obtain its agreement.

VAT liability of supplies
Once VAT registration is achieved, VAT will become chargeable at 20% on all vatable business supplies made in the UK. There are, however, some specific rules for supplies made outside of the UK.

Services — live performances
With effect from 1 January 2011, fees for live performances will be treated as supplied where the customer belongs, when that customer is a business, rather than treated as supplied where the performance takes place. More detailed guidance is available in the article, Change In Place Of Supply Rules For VAT, which can be downloaded from hwfisher.co.uk.

Services — recorded performances
Where a musician’s performance is recorded and a fee and/or royalties are received for the supply of this service, the supply is deemed to take place wherever the performance takes place. Accordingly, if fees or royalties are received from outside of the UK, these will not attract UK VAT. However, there is an additional rule for fees or royalties received from elsewhere in the EU (European Union). In order for UK VAT not to apply on EU royalties, the person paying the fee or royalty must be in
business themselves and the proof of that status is their VAT number in their EU country of belonging. Accordingly, for fees or royalties received from inside the EU, an EU VAT number should be obtained by the musician.

**Services — EC Sales Lists**
The scope of EC Sales Lists were extended with effect from 1 January 2010. Previously, they only had to be completed to record all goods sold to EU business customers on a calendar quarterly basis. All services supplied to EU business customers, such as royalties, must also be included on an EC Sales List.

**Music Downloads — VAT MOSS**
Members are alerted to the changes to VAT rules effective from 1 January 2015 and are advised to contact their accountant when appropriate for further guidance.

1. **Changes from 01 January 2015**
The place of supply of digital services changed with effect from 01 January 2015. Previously, B2C (Business to Consumer) supplies of digital services were subject to VAT where the supplier belonged. From 01 January 2015, B2C supplies of such services are treated as supplied where the consumer belongs. This only affects B2C supplies to customers in other EU member states and all B2B (Business to Business) supplies are unaffected.

2. **Practical Effect of the Change**
From 01 January 2015, all UK businesses, whether they are VAT registered or not, must account for VAT on digital supplies to B2C customers in other EU member states. There are no thresholds and the first supply to a B2C customer in any other EU member state will be subject to VAT at the local rate of that member state.

3. **How to account for VAT**
A UK business can either register for VAT in that member state (and potentially all 28) or, more realistically, it must register for the Union VAT MOSS scheme. MOSS (Mini One Stop Shop) allows a UK business to register once in the UK and then complete quarterly MOSS VAT Returns for all B2C transactions in other EU member states. The Returns are completed for calendar quarters and must be submitted to HMRC, together with the relevant payment, by the 20th of the following month.

4. **Identifying where the B2C customer receives the service**
For each transaction, the UK business should identify where the B2C customer belongs or has received the service, in order to establish where the supply took place. This may not be quite as onerous as it first appears as HMRC has stated that if the service is supplied:-

Through a telephone box, a telephone kiosk, a wi-fi hot spot, an internet café, a restaurant or a hotel lobby, the consumer location will be the place where the services are provided – for example, the member state where the phone box/kiosk etc. is located. On board transport travelling between different countries in the EU (for example, by boat or train), the consumer location will be the place of departure for the consumer’s journey.

Through an individual consumer’s telephone line, the consumer location will be the place where the line is located. Through a mobile phone, the consumer location will be the country code of the SIM card.
Through a decoder, the consumer location will be the postal address where the decoder is sent or installed. If B2C digital services are supplied in the above circumstances, then you are only required to retain evidence showing the relevant place (for example, the place where the decoder is installed) in order to establish the EU member state in which the supply took place. In any other circumstances, two pieces of commercial evidence will be required and examples include:-

The billing address of the customer; the IP address of the device used; location of the customer’s bank; any other commercially relevant information.

5. **Summary**
In summary, any UK business offering digital downloads via a website could be affected by the changes and should be
aware of the implications. If you currently make B2C digital supplies joining the Union VAT MOSS scheme is the only viable option for your business.

**Goods**
Goods, for example CDs, exported outside of the EU are zero-rated for VAT purposes, provided that valid export evidence is retained.

For goods sold to persons in other EU countries, the following rules apply:

1. Goods sold to private individuals in other EU countries are subject to UK VAT at 20%
2. Goods sold to businesses in other EU countries are not subject to UK VAT, provided the business has a VAT number in its EU country and that the number is obtained by the musician for inclusion on the sales invoice.

**Purchases**
VAT is recoverable on business expenditure, subject to various rules. Some of the common applicable areas are detailed below:

**Basic rules**
In order to be able to recover VAT on purchases and expenses via your VAT Returns, the purchase should relate directly to your business activity and a full VAT receipt will need to be retained as evidence. A credit card slip is not sufficient evidence for VAT recovery. Items that may not be considered a business expense by HMRC include purchases of clothing, household goods and leisure services. Some items may be used for both business and non-business purposes (e.g. the cost of home telephone calls) and therefore an apportionment to account for business and non-business use should be made and only a proportion of the VAT recovered.

**Fuel**
In order to be able to recover VAT incurred on fuel, a VAT scale charge should be applied. The scale charge is based on the CO₂ emissions of the car and this is added to the VAT payable to HMRC, which enables you to recover VAT on all fuel purchases in respect of your car, whether used for business purposes or private motoring. If the amount of VAT you incurred on fuel is minimal, it is advisable to recover no VAT on fuel and then, by concession, you do not have to pay any scale charge.

**Motor vehicles**
The VAT incurred on the purchase of a car is not recoverable at all. However, if a car is leased, the VAT incurred on the leasing charge is 50% recoverable. VAT on servicing and repairs is recoverable in full, even if the car is also used privately. VAT incurred on the purchase of a van for business purposes, i.e. moving musical equipment between different venues, is recoverable in full as a business expense, even if there is an element of private use.

**Subsistence**
VAT is recoverable on hotel and restaurant bills for subsistence. The VAT incurred on such expenditure is only recoverable in relation to the business and not third party individuals. For these costs to be viewed as subsistence, the meals and hotel accommodation usually need to have been incurred when you are away from your normal place of work on a business trip/tour.

**Travel**
Most forms of transport, e.g. air, train, bus, coach, are zero-rated for VAT purposes so no VAT is incurred on these expenses. However, some taxis or chauffeur-driven cars charge VAT at 20% for this service. The VAT is recoverable, provided that the journey was made for business purposes and a valid VAT invoice is held.

**Business entertaining**
VAT incurred on business entertaining is not recoverable. Although following a recent VAT case, HMRC now accept that some VAT incurred on essential entertaining of overseas clients can be recovered.

**Non-UK expenditure**
Only VAT incurred on business expenditure in the UK is recoverable via a UK VAT Return.

**Domicile**
From 6 April 2008, the benefits from being domiciled outside the UK, while resident
here, reduced considerably for most people. Only people with very substantial overseas income or gains, or those with overseas income of less than £2,000 per annum now benefit. HW Fisher & Company can offer advice as necessary.

**Foreign Tax Credits**

If you work abroad, you may be taxed on that income in both the UK and the country where it is earned. Therefore, you will effectively be taxed twice on the same income. However, when you prepare your UK tax return, you can usually claim relief for some or all of the foreign tax suffered, depending on the rate at which you were taxed. The treatment of the foreign tax is usually subject to the Double Tax Treaty the UK has in place with the country you were taxed in.

Generally, the tax treaties are such that your combined tax bill should be no more than the amount you would have to pay in the country where the higher tax is charged. If there is no treaty in place, then unilateral relief is available, where the rule is that you can claim relief on the lower of the foreign tax suffered or the UK tax due on that income. In order to claim the Double Tax credit, you must get a certificate of tax deducted. Claiming the correct foreign tax credit can be complicated, so we advise that you obtain professional advice.

**Incorporation**

Incorporating your trade into a company can be useful at saving tax, through the use of lower corporation tax rates and dividends. However, this generally depends on how much you earn, and professional advice should be sought. Again, the costs incurred can eliminate many of the benefits. HMRC has recently been attacking some incorporations, especially arrangements where the shareholders are husband and wife or there are regular long-term engagements.

**Partnerships**

If you are a member of a group, you may be taxed as being a member of a partnership and need to file a partnership return between you, as well as your individual tax returns. Husband and wife partnerships could also help to save tax, through making use of a spouse’s personal allowance and their basic rate band. HMRC has recently been attacking husband and wife partnership agreements if it feels that the profit share is not representative of the level of work done. Professional advice should be sought before entering into any partnership arrangement.

**Tax Credits**

If your income is low, it may be possible to claim Tax Credits to supplement it. For further details on what you can claim, visit [gov.uk/browse/benefits/tax-credits](http://gov.uk/browse/benefits/tax-credits).

**Save tax by investing your money**

**Pensions**

If you have earnings from self-employment (or employment, if you do not contribute to a company scheme) you can use that income to make provision for your retirement. Within certain limits, you will get full tax relief on your payments, which compares very favourably with other financial products where you get no tax relief. However, you will have to wait until you are at least 55 to get at the money — that is the catch in it! Nevertheless, this is an effective and tax efficient way of saving tax, particularly if you are paying tax at the higher rates. Even without earnings, it is possible to contribute to a pension. If you wish to make a pension contribution, you should seek advice from an accountant, tax adviser or Independent Financial Adviser (IFA).

**Other tax efficient investments**

There are other tax efficient investments, such as Individual Savings Accounts (ISAs) and Insurance Bonds. For more information on these, contact an IFA.