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### Welcome to the summer 2022 issue of our newsletter

With the weather recently taking a turn for the better we are all eager to embrace summer, especially considering the gloomy economic outlook. What better way to brighten the mood than to meet the team behind Chickenstock Music Festival with our client profile on page 05.

We also feature another client in this issue, Les Jeal of Emergo UK, who is helping hospitality businesses cope with changes to the way their customers order to help them minimise the issues they face following Covid. See page 01 for more details.

We hope that the sun continues to shine and that we can all enjoy some glorious weather, and make the most of summer again.

**We hope you enjoy reading this issue.**



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## Client Profile

# Emergo UK

Emergo UK, a client of our Maidstone office partner Emma Andrews, is a business specialising in online ordering, EPOS, payment, and loyalty systems that started trading in April 2021. For many people, starting a business at such an uncertain time would be the last thing they would want to do. However, owner Les Jeal, who had worked in this industry for over 10 years before deciding to start his own business, saw an excellent opportunity to address the way in which hospitality businesses operated and the way in which their customers now wanted to be served.

During the Covid pandemic 'lockdowns', hospitality businesses, as with most businesses, had to change their product offering. They now had to deliver direct to their customers' homes or be looking at the possibility that they would go out of business. Once lockdown restrictions were lifted, they then had to cope with strict Covid regulations including operating with restricted numbers, maintaining safe distancing including operating one-way systems and, introducing other measures to keep their customers safe. Like most businesses, they also had to operate with staff shortages, which continues to remain an issue for many businesses.

Added to this, the pandemic changed the way in which customers wanted to be served. Now used to online ordering, customers wanted, once business returned to normal, to be able to continue to order ahead of arrival or from their table without the need to queue. This approach also helped to reassure more anxious customers.

Making the challenge even more difficult for small businesses was the plethora of old and outdated technology within the industry, incapable of the flexibility needed for this new way of doing business.



↑ Les Jeal of Emergo UK

With Les' experience, he knew that he could provide smaller businesses with newer and inexpensive technology providing mobile and contactless payment and ordering solutions. This technology links front of house with the kitchen and bar, thereby ensuring that the entire ordering and payment process becomes faster and more efficient. This has helped to provide businesses with the competitive edge that they needed to get the tills ringing, satisfy regular customers, offset the issue of staff shortages and, help them to appeal to new clientele.

### Go Eat

More recently, Les has launched an alternative to existing food delivery platforms such as Deliveroo, Just Eat and

Uber Eats called Go Eat. For a small fee, a Go Eat storefront can be created in just 10 minutes, removing the 15-30% commission on takings that these platforms typically charge participating businesses. With research showing that 9 in 10 food orders are from existing customers, it is not hard to see that this channel becomes a costly way for small businesses to interact with their regulars, lowering their profit margins at a time when businesses are trying to bounce back from Covid and amidst a challenging economy of rising inflation and costs.

### Rewarding loyalty

For many small businesses, it was the support of their loyal customers, which helped them to weather the Covid storm. Rewarding loyalty has simply never been more important.

However, whilst nothing new, loyalty programs can be difficult or costly to implement for smaller businesses. Realising this, Les has also launched a card linked loyalty system, which recognises and rewards loyal customers when they use their payment card or payment app, effectively turning them into loyalty cards. This provides smaller businesses with a simple but very effective loyalty scheme to thank customers for repeat business, keeping them happy and returning for more.

### Working with MFW

Les had known Emma personally for more than 15 years before starting his business and so naturally went to her for help and advice knowing that she would be the best person for the job. Emma handled the whole process for Les including advice on the best business set-up and advice on share structure. At the beginning of the venture, Les had had a business partner who made the decision to leave the business. Emma handled that process, and

helped Les to secure further funding from an investment company. She also provided advice to Les on the best accounting software for him and his team to use and training on how to make the most of it, including the best practices to adopt.

Les says of this experience, *"Emma's help was invaluable. I have not had to recruit someone to do this for me. She has held my hand through the set-up process and I needed that help as a new entrepreneur. She has also provided help with VAT and payroll and allowed me to concentrate on what I need to do and can do best".*

For more information about the range of Emergo UK products and how they could help your business visit [www.emergouk.com](http://www.emergouk.com)

# Tax Matters

## Farming Focus: Is it a business?

**With the current changes to farm subsidy arrangements, together with the commercial impact of the post-lockdown environment, a key tax planning question is whether a farm is carrying on a business or not.**

This is evident in the recent VAT case of Babylon Farm Ltd v HMRC (2021).

### Background

Babylon Farm Ltd, hereinafter referred to as BF, had been registered for VAT since 1991 and had historically run a farming business. Mr McLaughlin and his wife (M) were controlling shareholders and directors of BF.

Hay making was now the only activity that remained of its previous farming business, although during the relevant period, M, claimed he was seeking to develop new business. The couple owned the land from which the hay was produced and sold it to M's livery business for £440 per annum. M set the price of the hay sale and decided what costs were borne by the company. These were the only sales generated by BF.

The company claimed over £19,000 of input tax relating to the period from May 2014 to February 2018 that mainly arose from costs incurred by the company in building a new barn to replace outbuildings, which it had sold, and which was used to store equipment used by BF in carrying out the hay making activities.

HMRC denied the claim on the basis that BF was not carrying on a business for VAT purposes in the relevant period.

### The commercial business

As farm accountants and tax advisers, the question of whether an undertaking is a true commercial business or a hobby is often asked in terms of all taxes and VAT. Likewise, some farm hobby operations have dramatic turnarounds and the business tax status of the operation has to be considered.

In the BF case, the judge stated that he could see no legal basis for the farm to be in business. The hay that the farm sold was taken from the customer's (M's) own land and therefore belonged to him already. It was also noted that no invoices were raised, no payment for the hay had been made for a number of years and the single customer M was a director of BF so the farm was not operating in open market conditions.

Regarding the claim by M that he was seeking to develop new business, it was found that neither of the intended activities had yet resulted in any chargeable services being provided and both were to be carried on through companies that had been formed for these purposes, not the farm. Neither company had generated any revenue. In short, there was an extreme lack of commerciality.

### Evidence of business activity

Based upon the facts found by the tribunal, there was no direct link between the hay making and the income generated. There was no evidence of any efforts to obtain customers.

While BF is a VAT case, it does have implications regarding Capital taxes. If there is no commercial business, there is potentially no business property relief (BPR) for Inheritance

Tax (IHT). With greater farm diversification, these reliefs need to be reviewed. The value of farmland remains high and the market values need the protection of IHT reliefs, especially BPR.

### Conclusion

It is anticipated that for 2022 and subsequent years, there will be even greater focus on economic activity to achieve tax reliefs.

Discussions should therefore be held with your resident partner, to highlight any weaknesses with your business set up that need to be addressed.

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## Client Profile

# Chickenstock Music Festival

Moya Taylor and her wife Beth share a passion for live music. A love which would lead the couple to launch their own business in 2018, after friends told them to turn the private entertainment they provided for family events into a new business venture - The Chickenstock Music Festival.

Chickenstock Music Festival is marketed as The Friendly Big Little Music Festival as it provides all the entertainment and experience you would expect of a larger event, delivered on a much smaller scale. This, Moya explains, is a deliberate policy, as the couple do not want the event to be the next Glastonbury. Instead, they seek to provide a family friendly and more intimate experience where festivalgoers can enjoy the music from the comfort of their chairs, where festivalgoers do not have to walk miles to get from A to B and where there are no large crowds and the jostling which comes with that. It is important to the couple that no matter where you are on the site, you can always see the stage at any given time.

To encourage families to attend, children under 16s go free and event on-site security and safety is taken very seriously so that parents can rest assured that their children cannot wander off and are, at all time, safe. Dogs are also welcome meaning that the whole family can enjoy the event.

### The entertainment

As well as live performances from some great artists, including this year's headline act the renowned rock band 10cc, there are plenty more reasons to enjoy the event. This includes a range of entertainment provided for both adults and children including circus training, yoga, African drumming and 'sing & sign'. There are also plenty of craft stalls and merchandise to browse,



↑ L-R Sophie, Simon, Moya & Beth

together with a wide variety of food outlets providing tasty festival food. The event's in-house bar also allows prices to be kept to a minimum.

### Meeting the team

Moya is the event's organiser, a full-time and all-consuming role she adores. Part of her role is, of course, sourcing and hiring the performers. However, she spends most of her time dealing with the administration for the event including organising the infrastructure, dealing with site safety, including traffic management, liaising with local residents and handling all the advertising and marketing to ensure ticket sales are a success. During the event, she also ensures that everything runs smoothly and that festivalgoers are well looked after and having fun.

She is ably assisted by her administration assistant Sophie Giles who is also responsible for all the event's



merchandising. Meanwhile, Beth not only uses her specialist sound engineering skills in her role as the event's facilities manager but she also rolls up her sleeves to get her hands dirty with a host of other jobs, many not nearly as glamorous. Last, but by no means least, Sophie's husband Simon is the Chickenstock Music Festival's stage manager.

#### What sets Chickenstock apart from other festivals?

Firstly, the event's setting, being nestled in the beautiful peaceful valley of Stockbury, provides its own charm and ambiance, together with its own unique acoustics. As well as being family friendly, the event is open to all genders, ages and abilities or non-abilities providing an all-inclusive and welcoming event. The importance of access is a top priority for the couple who have first-hand experience of taking a disabled son to music events.

#### Sustainability

Environmental issues are extremely important to the couple with Moya and Beth working towards making Chickenstock Music Festival Net Carbon Neutral. Produce and supplies, including infrastructure are sourced locally, wherever possible, to reduce delivery

mileage, solar lighting is utilised, where feasible, and power is provided by a bio-diesel generator. Once the event has ended all waste is sorted and recycled.

#### Working with MFW Sittingbourne

Moya and Beth are clients of our Sittingbourne office and have been very impressed by the work carried out by Sittingbourne Manager, Nicola Clarke. Moya says of her experience to date, *"Nicola has been fantastic and patient with me if I have been slow to respond, she has taken a huge weight off my shoulders and knows exactly what we can claim for. I know that I can leave all the financial stuff to Nicola to deal with so that I can concentrate on making sure everyone is safe and happy."*

Nicola provides the couple with tax planning advice, processes their tax returns, and has recently helped the couple secure a tax refund.

#### More information

This year's event features 47 acts over 4 days and takes place between 28-31 July. Please visit [www.chickenstockfestival.co.uk](http://www.chickenstockfestival.co.uk) for event information, useful hints and tips and, of course, to book tickets.

# Spotlight On MFW Tax investigation services

In the financial year ended 2021, UK net borrowing was up to an eye watering £327.6 billion, the equivalent to 15.3% GDP largely due to the economic damage wrought by Covid. To increase tax revenue to help plug this hole we anticipate that HMRC will raise their game to increase both the number and extent of their tax investigations. It is also extremely likely that HMRC will be looking more closely at tax returns, payments and compliance history of individuals and businesses who relied on any of the Covid-19 support schemes, such as the CJRS (furlough scheme) and the SEISS (self-employed scheme). Tax and VAT repayments are also certain to be checked more rigorously alongside the usual full tax investigations.

Last year, HMRC collected £34.1 billion through tax investigations and enquiries. What's more, HMRC can target anyone who submits a tax return.

## Better safeguarding for you and your business

It has never been more important, therefore, to protect yourself and/or business with our tax investigation service.

For a small yearly fee, we will:

- Defend you if you are selected for a HMRC tax investigation.
- Claim our fees for dealing with the investigation from the insurance company that underwrites the Service.
- Support you through the process and minimise any hassle.

## What happens if I don't protect myself/business?

If you're not protected, the costs of a tax investigation can go into thousands of pounds and last for months. Dealing with a tax investigation is not included in our normal fees, so it pays to act now and safeguard yourself/your business against the cost and stress of a tax investigation.

As your accountants, we want to make sure you are safe, secure and protected in every possible way. That is why we strongly recommend you take advantage of our Tax Investigation Service.

Here are two recent case studies where our clients are glad that they had the protection of our Tax Investigation Service:

### Case one

Our client traded in specialist commercial vehicles (buying, selling and repairing) for many years. He received an offer for his yard and buildings that he couldn't refuse and so he sold up, having had to clear all stock, and the site, generally, before doing so.

HMRC enquired into the client's tax return which contained the final trading accounts and Capital Gains Tax computation. It was a full enquiry where they asked for all of the underlying books and records. We persuaded HMRC that they did not need to see all of the records, and provided them with key information to enable them to agree the figures that we had submitted. The enquiry only lasted for 4 months, from start to finish. We billed the insurers £1,131 for our time, and the client was delighted that it was a cost that he had not had to meet, even though he was confident that nothing was wrong "... after all, he said, I have you looking after our accounts".

### Case two

We assist a haulier client with the submission of their VAT returns. HMRC withheld repayments arising on returns for the quarters ended 30 June 2021 and 30 September 2021. The total involved was £352,434. Most HMRC officers were working from home and so communication was challenging. Eventually an officer rang to request supporting information, followed by another officer writing to us with further queries. Once upon a time, HMRC would have visited the client to verify the repayment. Even pre-



Covid this was becoming rare, as most checking was done, and still is, by remote desktop reviews. Anyway, the cover that our Service provides includes dealing with compliance visits and VAT disputes. So, our fees for dealing with HMRC's questions, amounting to £770, were met by the underwriting insurers, not our client. The client was pleased to get the repayment, eventually, that they did not have to pay our fees, and the £8,414 repayment supplement helped!

The sums involved in respect of our fees in the above cases are not substantial. Our fees can be much higher, the time taken can be much longer, and the hassle involved, can be much worse. However, for a small sum each year, (for the cost of the MFW Tax Investigation Service), our clients have not had to meet the cost of our fees, and are pleased that they had subscribed to our Service.

The cost of cover for businesses ranges from £104.40 to £249.60, depending on the size and nature of the trading entity. With few exceptions, this includes cover for partners/directors of the business. For other individuals, the cost is £50.40 per year.

For more information about the MFW Tax Investigation Service, please contact your local MFW office [mfw.co.uk/contact](http://mfw.co.uk/contact)



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## Insolvency Matters

# Bounce Back Loan Warning to Directors of Failed Companies

It is widely known that in the early days of lockdown the government ensured that financial assistance was available to almost all businesses suffering because of the pandemic. There were various types of funds available including the Coronavirus Business Interruption Loan Scheme ('CBILS'), Coronavirus Large Business Interruption Loan Scheme ('CLBILS') and the one most frequently applied for, the Bounce Back Loan Scheme ('BBLS').

By 31st May 2021, 1,677,129 loans had been approved, with a total value of £80.37bn of which 1,560,309, amounting to £47.36bn were Bounce Back Loans. Of the latter, by the same date, the National Audit Office (NAO) estimated the value of losses that will not be



repaid were £17bn and the Department of Business, Energy & Industrial Strategy estimated the value of fraudulent claims to be £4.9bn.

The loans were provided directly to the businesses by commercial lenders, with the Government providing a guarantee to the lenders via the British Business Bank for the amount borrowed plus interest. The scheme was set up very quickly and the priority was speed of payment, usually within 24 or 48 hours of the application, and removed the requirement for credit and affordability checks, allowing borrowers to 'self-certify'.

Around one quarter of all UK businesses received a BBL, most of which went to micro-businesses.

Problems arise however, when the directors have not utilised the loan for the benefit of the business or applied for the funds fraudulently, and subsequently the company goes into some type of formal insolvent procedure.

When a company goes into insolvent liquidation, administration or has an administrative receiver appointed, the office holder is obliged to carry out certain investigations on behalf of the Secretary of State and report any wrongdoing to the appropriate authorities by way of a report on the conduct of the directors. Recent guidelines mean specific scrutiny has to be made of every business that took advantage of the above schemes.

Legislation has also been passed to enable the Insolvency Service to investigate companies that have been struck off, and which benefited from government backed funding.

There are numerous potential pitfalls for the directors, ranging from whether or not the application itself was fraudulent, for example, because it did not meet the turnover threshold or any other criteria applicable at the time, through to how the funds were utilised.

The most common offences in relation to Bounce Back Loans include:

- the funds not being used for the benefit of the business
- businesses overstating turnover by more than 25% or a loan of more than 25% of turnover
- debts which had been personally guaranteed by the directors having been paid off and
- minimal creditors that could suggest other creditors have been paid off.

Examples of where the funds were not deemed to have been spent for the benefit of the company include regular payments to individuals where there has been no evidence to show these were genuine business transactions. Repayment of the Bounce Bank Loans from personal funds has been pursued in such cases.

Furthermore, the Insolvency Service has started prosecuting directors who have abused the Bounce Bank Loan Scheme and if wrongdoing or malpractice is established, directors can face sanctions including fines, a ban from being a director of up to 15 years, and potentially criminal prosecution, which can and has led to imprisonment.



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