ICAEW CHARTERED ACCOUNTANTS

David Cutter & Co
Chartered Accountants

2 Lyttleton Court
Birmingham Street
Halesowen
West Midlands
B63 3HN

Tel: 0121-550-8525
Fax: 0121-585-7341
Email: info@davidcutter.co.uk
Web: www.davidcutter.co.uk

Business News

A new breed of State Pensioners

Those who reached State Pension age on or after 6 April 2016 have the privilege of being the first recipients of the new, supposedly 'flat rate' State Pension. Although the headline flat rate has been set at £155.65 per week nearly everyone is receiving a different amount to this.

There are a number of reasons why this is so but the two main reasons relate to the old State Pension system, which featured an entitlement to additional State Pension for many and lower State Pensions for those who had been 'contracted out'.

The important point for everyone who is planning for their retirement is to have an up to date pension forecast. An online version is in its testing stage at gov.uk/check-state-pension. This page provides details of other ways of obtaining a forecast.

All you then have to do is understand it! At the start of this year the Work and Pensions Committee raised concerns that the details sent out to individuals regarding when they will receive their State Pension and its expected value were insufficiently clear and could be misunderstood. However it is clearly far better to be in receipt of this information than have no information at all.

SUMMER 2016

Small company taxation

The Office of Tax Simplification (OTS) started its life in 2010 and has a remit of attempting to simplify the tax system.

One of its recent projects is a review of the simplification of small company taxation. Small for this purpose is an incorporated business with fewer than ten employees. These 'micro' businesses now number approximately 4.1 million in the UK, over 1.3 million of which operate through a company structure.

The review found that among the many reasons for incorporation, the three main ones for micro companies are to limit their liability, enhance their credibility and provide a formalised structure.

Tax savings were not found to be a main driver for incorporation and this has led to one of the areas highlighted by the OTS as warranting further investigation - taxing the company owners rather than the company on a 'look-through' basis. This would mean the shareholders being assessed to income tax and national insurance contributions on their share of the profits. Dividend distributions would not be subject to tax as the profit share would already have been charged. The OTS accepts the main argument against look-through is that it would subject profits retained by the company to full income tax/NICs and therefore reduce the funds available for investment and growth. However, for companies who tend to distribute all or most profits, it suggests the system could work and would be particularly relevant for companies which are effectively one-person businesses.

Another area worthy of further investigation, in the view of the OTS, is the development of a business structure which provides a person with the key aspects of liability protection without the need to incorporate. Such business structures exist in other countries, for example France and Chile. One model could be a 'Sole Enterprise Personal Assets' vehicle (SEPA). Here, the self-employed individual would not have a separate legal identity, but there would be a provision for protecting the assets of the individual. These assets could include the individual's home, any non-business vehicles and any other substantial assets.

Government's response

In the 2016 Budget, the government asked the OTS to develop an outline of a SEPA vehicle and a look-through system of taxation. It will be interesting to see how the OTS develops these ideas.

Looking forward to the Lifetime ISA – if you are under 40

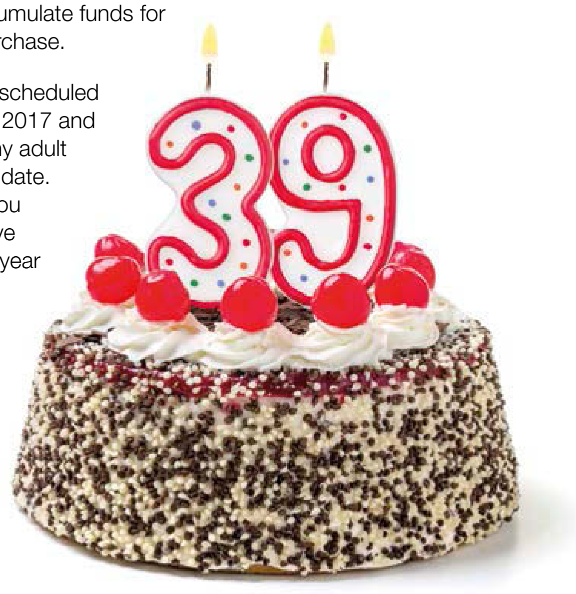
Perhaps the most significant announcement in the recent Budget was the news of the Lifetime ISA. A few commentators are suggesting that many taxpayers in their 20s and 30s will ditch saving into a pension scheme and will view the Lifetime ISA as the better way to save for their retirement.

The Lifetime ISA will give a government top up of 25% of the amount invested and the ability to accumulate savings income tax free - just like a pension.

In addition, there is the ability to eventually withdraw all the funds tax free rather than 25% of a pension fund. You will however have to wait until you are 60 rather than 57 (minimum pension access age is set to rise from 55 to 57 by April 2028). Alternatively, you can access the ISA earlier for the purchase of a first home up to £450,000. You can also access earlier for any other reason but this comes at the price of losing the government top up, the accrued income associated with it and suffering a 5% penalty. The government is however considering whether Lifetime ISA funds plus the government bonus can be withdrawn in full for other specific life events in addition to buying a first home.

There is still a lot to be said for pension contributions if you are a higher rate taxpayer. The government top up for a 40% taxpayer is effectively 67% ie £6,000 of pension contribution after full tax relief provides investments of £10,000.

The biggest constraint in the Lifetime ISA will be an annual investment limit of £4,000. Many basic rate taxpayers who can afford to save more than this may well go for a strategy of utilising their Lifetime ISA allowance first and then saving into a pension. Also a couple whose aim is to buy a house together can each use a Lifetime ISA to accumulate funds for the prospective purchase.



The scheme is not scheduled to start until 6 April 2017 and it will be open to any adult under 40 from that date. Once you qualify, you can continue to save up to £4,000 each year and will receive a 25% bonus on the contributions made up to the age of 50.

It's a pity if your 40th birthday is on the 6th April 2017.

When (and when not) to sign a Gift Aid form

The Gift Aid scheme is now 25 years old. In its first year charities benefitted with £10 million of tax savings. In 2014/15 the savings were worth nearly £1.2 billion.

The tax savings arise because Gift Aid donations from individuals are deemed to be paid by those individuals net of basic rate income tax. The charity then claims the tax back from HMRC as it is exempt from tax on donations received (subject to the detailed rules for Gift Aid being satisfied).

In addition, higher rate taxpayers can claim tax relief on their Gift Aid donations amounting to 25% of their donations. Additional rate taxpayers effectively receive 31.25% tax relief on their donations.

Given the longevity of the scheme, amendments have been made to its conditions from time to time. In April 2016, the Gift Aid declaration underwent a change. The declaration is the means by which the taxpayer agrees that the donation comes within the scheme and allows the tax reliefs to flow through to the charity and the taxpayer.

HMRC has simplified and shortened the model Gift Aid declaration. However, in doing so it has clarified that if an individual has not paid sufficient tax to cover the tax reclaimable by the charity on the donation, the individual is responsible for paying the difference to HMRC.

Action required by charities

The new style declarations should have been in use from the 6 April 2016. However:

- if an individual has signed an old style declaration form which covers multiple donations, there is no need for that individual to make a new declaration
- if a charity holds stocks of printed materials that were ordered and printed before 21 October 2015, that stock can continue to be used.

A declaration by a donor can alternatively be made verbally or online (eg via a website). Whichever format is used, charities need to ensure the updated format is used.

But some individuals need to revoke their declarations

Individuals who expect to pay little or no tax in 2016/17 need to be aware of the dangers of signing new declarations as well as the effects of having signed declaration forms which cover multiple donations. The standard wording on many declarations state 'I want to Gift Aid my donation of £_____ and any donations *I make in the future* or have made in the past 4 years'. Note the italicised words. Due to various changes in the personal tax regime in recent years - in particular the increases in the personal allowance and the introduction of a £1,000 savings allowance in 2016/17, there are many more individuals who will not be paying income tax in 2016/17. So, for example, if a non-taxpaying individual makes £80 of donations this tax year, the charity(ies) will claim £20 and the individual has a £20 liability to HMRC. Such individuals need to get in touch with the charities to cancel the Gift Aid declarations. Cancellation will not affect Gift Aid donations already made but any further donations will not qualify.

There are also many higher or additional rate taxpayers who have signed declarations but have not claimed the difference between the rate they pay and basic rate on their donations. It is quite straightforward to do this, either through a Self Assessment tax return or by asking HMRC to amend their tax code.

Salary sacrifice and Auto Enrolment

With pension auto enrolment applying to more and more employers, we look at the options for using a salary sacrifice scheme to deliver tax savings for the employer and the employee.

Salary sacrifice takes place when an employee gives up the right to part of their remuneration in return for the employer providing the employee with some form of non-cash benefit.

As announced in the 2016 Budget, the government is considering limiting the range of benefits that attract income tax and National Insurance advantages when they are provided as part of a salary sacrifice arrangement. However, the government's intention is that pension savings, childcare and health related benefits will continue to attract these reliefs. One option therefore is that employees sacrifice part of their salary in return for the employer paying a sum to a registered pension scheme for the employee's benefit.

Conditions for effective salary sacrifice

The recent Reed Employment tax case illustrated that it can be costly to implement a salary sacrifice scheme incorrectly. To be effective the arrangement has to reduce the employee's contractual right to cash remuneration. This requires two conditions to be met:

1. the employment contract must be effectively varied before the changes are implemented ie the employee must give up their salary before they are entitled to receive the remuneration and

2. the revised contractual arrangement must show that the employee is entitled to lower cash remuneration and a benefit.

In addition, the employee should not have the right to give up the non-cash benefit and revert to the higher cash salary within 12 months.

In practice, the variation of the contract can be achieved by rewriting the contract, setting out the changes in a separate document attached to the contract or by giving employees an 'opt out' option. An 'opt out' clause would specify a time limit by which time employees would have to opt out of the salary sacrifice arrangement. Failure to do so would be regarded as an 'opt in'. Employees would need to be fully informed of the proposals.

It should be noted that the cash wage cannot fall below rates set in the National Minimum Wage and the National Living Wage following salary sacrifice. Salary sacrifice can affect an employee's entitlement to certain state benefits such as Maternity Allowance and Incapacity Benefit. Therefore consideration should be given to excluding lower paid employees from the scheme.

Effects of successful salary sacrifice

Where salary sacrifice is implemented with a pension payment being provided by the employer then the employee will pay income tax and NICs on the lower cash salary. There is no charge to income tax or NICs on the amount of the pension payment made by the employer.

The effect of using salary sacrifice for employee's pension payments would therefore be a saving of up to 12% for the employee and up to 13.8% for the employer.

Example

Using a salary of £30,000 and 2016/2017 tax rates. An employer contribution of 2%, employee contribution 4% before tax relief.

	Before	After
Employee's net pay	£	£
Salary	30,000	28,800
PAYE	(3,800)	(3,560)
Employee NIC	(2,633)	(2,489)
Pension contribution (net of tax relief)	(960)	NIL
Net pay	22,607	22,751
Employer's costs	£	£
Salary	30,000	28,800
Employer's NIC	3,021	2,855
Employer's pension contribution	600	1,800
Total cost to employer	33,621	33,455
Total pension contribution	1,800	1,800

The employee's net pay would increase by £144 and the cost to the employer would fall by £166.

HMRC approval

HMRC will not comment or advise on any proposed salary sacrifice arrangements as they do not want to be involved in employment agreements. They will, however, give assurance after the arrangements are in force. To allow HMRC to do this they will require sight of all relevant documentation.

The requirements of salary sacrifice schemes can be complex and if you need any further advice do not hesitate to get in touch.

Minimum Wage rates increases rescheduled

The National Living Wage (NLW) came into effect in April 2016 for workers aged 25 and over and has caused many businesses to consider their remuneration policies for employees. The initial rate of £7.20 is a 50p increase in the rate that used to apply. In terms of detailed rules, the NLW is really just a new category rate for the National Minimum Wage (NMW).

However there is an important difference of principle in the setting of the rates. Changes to the NMW rates have been recommended by the Low Pay Commission in an annual report. Amongst the 368 pages of the latest report are the recommendations for changes to the NMW rates to apply from 1 October 2016. The rate for 21 to 24-year-olds will increase by 25p to £6.95 for example. The Commission will continue to recommend rates for those aged under 25 and apprentices that will not damage the employment prospects of these groups. It will also recommend rates for NLW but focused on the government target of reaching 60% of median earnings by 2020 (on latest forecasts this would mean £9 in 2020).

The government has announced that the NMW and NLW cycles will be aligned with effect from April 2017 so that both rates are amended in April each year.

Is Research and Development tax relief available?

Research and Development (R&D) tax relief can provide additional tax deductions and enhanced cash flow for companies. HMRC have introduced 'Advance Assurance' which enables small companies to confirm their entitlement to R&D tax relief.

R&D tax relief can allow a company to claim an additional corporation tax reduction of 26% of the expenditure incurred. Alternatively the company can surrender a loss for a cash repayment. A surrendered loss could give a repayment of up to 33.35% of the expenditure. This could significantly improve cash flow for new companies.

To claim R&D tax relief a company must meet several qualifying conditions. Reviewing whether these are met can be expensive and time consuming for small companies. HMRC have therefore introduced Advance Assurance whereby a small company will have access to an HMRC specialist who will discuss whether the activities of the business meet the qualifying requirements.

In order to access Advance Assurance, the company must:

- not have claimed R&D tax relief before
- have an annual turnover of £2 million or less
- have less than 50 employees.

We can apply for Advance Assurance on your behalf but any discussions about the business will be carried out with a main contact in the company (appointed by the company in the application). HMRC state that most applications are dealt with by a short telephone call. We will be able to contribute to the discussions if there are any difficulties.

If HMRC agree that the company qualifies to claim R&D tax relief they will then allow the claim for the next three accounting periods without further queries. If you're planning to carry out R&D at a future date, Advance Assurance can still be applied for. HMRC will contact you after you've submitted your first claim to check that the R&D matches the details supplied in the Advance Assurance application.

If you think your company may carry out research and development activities please contact us to talk about the available tax reliefs.

Four reasons to add social media to your marketing plan

The use of social media in businesses has rocketed over the last few years as it is a great way to communicate with a wide audience. If you're not an active user you could be missing out on vital chances to communicate with your clients.

1. The easy way to reach a wide audience

Signing up for social media accounts is free and simple to set up. All you need is an email address and ideas on what to post. With a constantly expanding audience (38 million in the UK) and the average time spent on social media increasing (2 hours 13 minutes per day), embracing this marketing channel will allow you to stand next to bigger businesses and share news and knowledge from your company.

2. Be recognised as an expert in your field

Posting to your social media channels allows you to create an online personality and establish a first impression for your brand. For businesses, this can be very beneficial as developing a knowledgeable voice can aid your reputation as a trusted company and source of information. An example of how to do this is to post technical content and links to news articles. This shows that you are up to date on the latest developments in your industry and would not refer to out of date information when dealing with clients. When you read articles online, there's often an option to share to your social media profile – this is an easy way to share content with your followers.

Don't forget, your online presence is like meeting someone for the first time, but in an online environment. What do you want your contacts to think about your company? If you are approachable and outgoing on social media, they will be more at ease and more likely to return to you in the future.

3. Customer service tool

In business, nothing matters more than your reputation. Social media allows you to connect with your clients and contacts outside your office while, most importantly, giving them a comfortable choice in how to communicate with you. Whether commenting on a news article you have tweeted, retweeting a useful fact or giving your firm some feedback, it is engagement your company may not have received previously. Complaints are always an upsetting occurrence, but using social media to respond in a timely and useful manner will often be the detail that is remembered when the incident is reflected upon.

4. Improved website traffic

Your website is the place that thoroughly reflects your company's brand and offering, so why not encourage more people to visit? If your website contains helpful resources and product information, you should communicate this to your audience to enable them to use your website as a hub of information. While they are on your website, they can find out more information about other elements of your business and may contact you.

Linking to your website can also help improve your search engine optimisation, to aid you in climbing towards the top of search engines such as Google and Bing. Search engines are constantly developing to make sure the best and most relevant results are being found, and social media is now being used to find quality content that users are engaging with. Creating and sharing content and links to your website on these platforms will send a signal to search engines that people like what you are saying and this is a reason your site should be ranked higher than competitors.