RfM Accountants + more

Winter 2015
www.rfm-more.co.uk

+ more news

Welcome to the latest edition of our newsletter. We trust you will find it interesting and helpful. If you would like to speak to an advisor about any of the matters covered, please get in touch.

Support available to flood-hit businesses

For many businesses across Lancashire and Cumbria, the festive spirit was dampened (and in some cases completely submerged) by the terrible flooding that occurred on Boxing Day and the days following. As the water level rose, so did the fear for many that their businesses would be severely disrupted – whilst some would not survive at all.

As the clean-up and cost-counting continues, West Lancashire Council has announced a series of measures to help those businesses who have been affected.

Business Rates Relief

Businesses can apply for temporary Business Rates relief by contacting the Business Rates Team on 01695 587158 or by emailing business.rates@westlancs.gov.uk

Business Support Grants

Small and medium-sized companies of up to 250 employees can apply for a business support grant from Boost Business Lancashire. Applications must be made by 28 February 2016. Call 0800 488 0057 or visit *www.boostbusinesslancashire.co.uk/directory/flood-recovery-grant-scheme.aspx* for more details.

Support for Farmers

A support scheme for farmers affected by the flooding, administered by DEFRA, has also been put in place. Applications must be made by 1 April 2016. Visit *www.gov.uk/government/publications/apply-for-the-farming-recovery-fund-frf* to find out more.

Whilst the Council is contacting all the businesses that it is aware of who have been affected by the recent floods, business owners can also contact the Business Development Officer on 01695 712559 for advice on any of these support schemes, and help to apply.

Businesses in Cumbria

A range of funding, grant and support schemes are also available to help those businesses affected by the severe flooding in Cumbria in December. Details can be found at *www.cumbria.gov.uk/floods2015/businesses.asp.*

If your business has been affected, your RfM advisor can also help you assess the financial impact and provide advice on funding and support available.

All the knowledge, none of the jargon

As we reported in our last issue, RfM has over 100 years' experience in accounting for rural businesses and, to ensure that as many farmers as possible across the region can benefit from our specialist knowledge, we're spreading the word with a straight-talking new advertising campaign.

+ more expertise - less bull

Posters with the attention-grabbing headline, '+ more expertise, - less bull' went on display at a number of agricultural auction marts across Lancashire and Cumbria in January. We're hopeful that farmers who are there on the lookout for livestock or machinery will also take note of our ads.

We are all about taking the stuffiness out of accounting and providing our clients with good advice that is easy to understand and act upon. So, if you'd rather listen to sound business advice than plough through a heap of financial jargon, contact your local RfM office today.

The Bribery Act
Do you understand the risks?

It should come as no surprise that a UK company or partnership can be criminally liable if it pays a bribe to gain business. You might not be aware, however, that a business also commits a criminal offence if a person 'associated with it' bribes another person for the benefit of the business.

The Bribery Act 2010 introduced such an offence under the heading of 'failure of commercial organisations to prevent bribery' although there is a defence against the charge if the business has put in place 'adequate procedures' designed to prevent persons associated with them from bribing others on their behalf. A suitably broad term, 'persons associated with a business' includes employees and agents of the business, and may also include distributors, contractors and suppliers.

Recently, the government took a survey of small and medium-sized businesses that are currently exporting or planning to export to examine the awareness and impact of the Bribery Act.

Just over half had heard of the Bribery Act. Most of those that were aware of the Act knew of the offence of corporate failure to prevent bribery, and that the provisions apply to business conducted abroad as well as in the UK. The findings revealed that a lot of businesses were not aware of the Bribery Act and what it means.

Many of the businesses that were aware of the Act did not know of the Ministry of Justice (MoJ) guidance published to help them understand what they can do to prevent persons associated with them from bribing.

The government wants businesses to consider the impact of the Bribery Act but also to take a proportionate, pragmatic and low-cost approach to winning business without bribery. As such, if there is no risk of bribery on your behalf you do not need to put bribery prevention procedures in place – although it is worth looking at a 'quick start guide' issued by the MoJ to get an idea of the type of action you could take. **For advice about assessing the risk of bribery in your business, contact your RfM advisor.**

Don't be taken in by HMRC phishing emails

'Phishing' is the term used to describe the fraudulent act of emailing a person in order to trick them into revealing their personal or financial information. HMRC has issued guidance to help its customers recognise when an email from them is genuine or fake.

HMRC's move to providing more and more of its services online means that taxpayers and agents are increasingly at risk of being targeted with emails from devious fraudsters. These emails, which often look authentic, will usually request personal information such as date of birth, bank details or passwords. With a Self Assessment tax payment date on 31 January 2016, now is the time to be extra vigilant.

HMRC have confirmed that they will never send notifications of a tax rebate by email and they will never ask people to disclose personal or payment information by email.

How to tell if an email is fraudulent

Check it's from a genuine HMRC email address
Often the fraudster will create an email address which looks very similar to an HMRC email address, for example 'refunds@hmrc.gov.uk'. You can find more examples of false email addresses in a list provided by HMRC at https://goo.gl/3QLfie.

Be wary of links to fake websites asking for personal details
You may be asked to click a link in an email which will take you to a bogus website.

These web pages can be very convincing but will often contains links, display fields or boxes asking you to input bank or credit card details and passwords. HMRC have warned that some phishers also add links to actual HMRC websites in their efforts to make the emails appear genuine.

The email isn't personalised to the recipient
Fraudsters often send many phishing emails in one go and will therefore use a generic greeting such as 'Dear Customer' rather than a name.

Remember, attachments could contain viruses
Caution should be taken before opening attachments on an email; these may contain viruses designed to steal personal information from the recipient's computer.

Report phishy emails

HMRC have advised that any suspicious emails should be sent to *phishing@hmrc.gsi.gov.uk*.

If you mistakenly supply personal information in reply to an email or text, send details of what has been disclosed (e.g. name, address – but not the actual details) to *security.custcon@hmrc.gsi.gov.uk*

Pension top-up window now open

The short, 18-month period for making Class 3A voluntary contributions to top up the State Pension has commenced and will close on 5 April 2017.

From 6 April 2016 a single tier, flat-rate pension will be introduced for people who reach State Pension age from that date. Class 3A is designed to help people who have not been able to build up much State Pension before the single tier pension is introduced.

Existing pensioners and those reaching State Pension age before 6 April 2016 can improve their retirement income by purchasing extra State Pension up to a maximum of £25 per week.

Illustrations of the cost for different ages can be found at *www.gov.uk/state-pension-topup*. As an example, the cost for a person aged 65 to receive an additional £5 pension a week would be £4,450. Prices are lower for older pensioners because they are more likely to have a shorter life at retirement.

Class 3A is not a replacement for Class 3 Voluntary NI contributions, whereby workers can fill certain gaps in their contribution records. The government advises pensioners to make sure they have full entitlement to the basic payment before purchasing the top-up.

Fit for Work

When an employee is off work due to sickness for a long time, businesses, particularly small businesses, can find it difficult to cope.

There is a very strong evidence base for sickness absence that shows that the sooner the causes of absence are identified, and acted upon, the better. Intervention at four weeks, compared to six months, has a far greater impact because an employee is more likely to still have an attachment to work. The longer an employee is off work, the lower their chances of ever returning.

To tackle this issue, the government developed a new range of free services towards the end of 2014 that would help employers and employees in this situation. The key element of Fit for Work is an independent occupational health assessment and development of a plan to help the employee to get back to work.

The service is delivered by a private sector partner in England and Wales and by the NHS in Scotland. There are no equivalent plans for Northern Ireland.

To find out more, visit *fitforwork.org* or *fitforworkscotland.scot*

FOCUS ON: Income from Property

Before you get too comfy...

More changes to tax rules for repairs and replacements

There have already been some recent changes to the amounts that can be claimed as repairs or replacements for landlords of residential properties but the government is proposing further legislation to be introduced from April 2016.

If we're honest, the current treatment of repairs and replacements for residential property lettings is all a bit of a mess. The tax relief varies depending on whether the property is let furnished, unfurnished or partly furnished. In addition, another set of rules applies for furnished holiday lets. The new proposals therefore attempt to provide a more consistent treatment (although no changes are proposed for furnished holiday lets).

Partly furnished or unfurnished properties

Tax relief is currently given for the repair of a property, such as repainting the inside or exterior of the property. If an 'integral fixture' (see examples below) is replaced, tax relief is also given as this normally constitutes a 'repair' of the property. There is currently no relief for the replacement of furnishings. From April 2016, it is proposed that tax relief will be given in all these circumstances.

Examples of Furnishings

- *movable furniture such as beds or suites*
- *televisions*
- *fridges and freezers*
- *carpets and floor-coverings*
- *curtains*
- *linen*
- *crockery or cutlery*
- *beds and other furniture.*

Examples of Integral fixtures

- *baths*
- *washbasins*
- *toilets*
- *boilers*
- *fitted kitchen units.*

Fully furnished properties

Tax relief is currently given for the repair of a furnished property and this also includes the replacement of integral fixtures. In addition, a wear and tear allowance of 10% of the net rent is given to cover the cost of replacement furnishings.

From April 2016, the wear and tear element will be replaced with the same relief as described above for partly furnished properties.

How much relief will be given?

The new replacement relief will give relief for the cost of the replacement asset, less any proceeds received from the old asset that is being replaced.

No relief will be given for any furnishings that have not been in the property before and any element of the replacement asset that represents an improvement would be excluded from the replacement relief.

The replacement will include an improvement if the new asset can do more or if it can be used to do something that it could not do before. For example, replacing a washing machine with a washer-dryer is an improvement. If the washer-dryer cost £600, and the cost of buying a new washing machine like the old one would have been £400 then the replacement furniture relief will be £400 (£600 less the £200 that represents the difference in cost between a washing machine and the washer-dryer).

Who are the winners and losers?

Owners of properties which are not fully furnished are clear winners from the changes. As they don't currently get tax relief for furnishings, it makes sense, if possible, to defer replacement expenditure until 6 April 2016 when relief will then be available.

Owners of fully furnished properties may be winners OR losers depending upon how often, and at what cost, furnishings are replaced. The 10% wear and tear is given whether or not any actual costs are incurred. For this group too it therefore makes sense to defer replacement expenditure until 6 April 2016.

If you would like to discuss your income from property and the tax reliefs available, please contact your RfM advisor.

New register shows who really controls the company

UK company law already requires certain information on directors and registered legal owners of company shares to be made publicly available but new legislation means that anyone doing business with a private company can see who really controls that business – its 'beneficial owners'.

The Small Business, Enterprise and Employment Act requires UK companies to:

- maintain and keep open for public inspection a register of Persons with Significant Control (PSC)
- file PSC information at Companies House together with an annual 'check and confirm' process which will replace the annual return.

The expected implementation dates are for companies to keep a PSC register from April 2016 and to file with Companies House from June 2016.

Apart from companies already subject to similar requirements (such as listed companies), every UK company will be required to take reasonable steps to identify every individual who has, directly or indirectly, significant control over the company. The PSC regime is expected to be extended to LLPs through secondary legislation. If the company does not take reasonable steps to identify PSCs, the company and its directors could be guilty of a criminal offence.

A PSC is any individual with an interest in more than 25% of the shares or voting rights, or who otherwise exercises control over the management. This includes where the 25% interest is held individually or jointly, for example as one of a number of members of a firm that is not a legal person. There are provisions for establishing if an individual has control via a trust or fund.

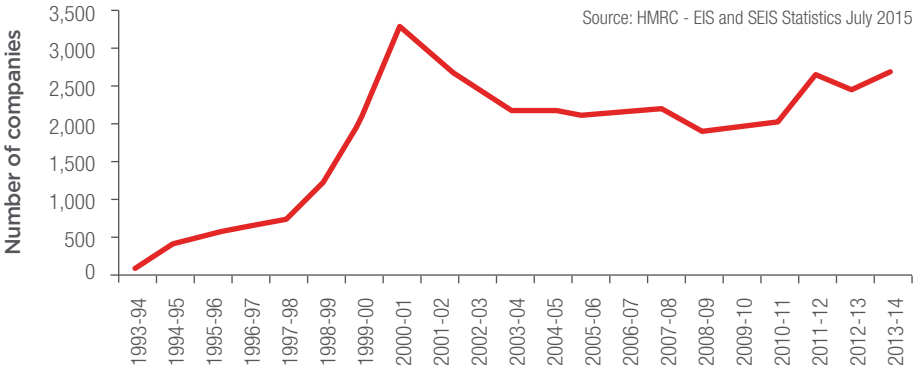
A PSC will have to notify or confirm the their interest to the company. In addition, a company may require any person who it believes knows the identity of a significant controller (or the identity of someone likely to have that knowledge) to provide relevant information.

Although this legislation imposes further burdens on companies and some individuals, the advantage for all businesses dealing with companies is that it will be possible to check who really controls the company.

If you would like advice or guidance on this potentially complex legislation, please contact your RfM advisor.

It doesn't pay to ignore the Enterprise Investment Scheme

The Enterprise Investment Scheme (EIS) is now over 20 years old. Reaching this milestone is quite remarkable for a tax break as a change in government often results in the demise of one tax break to pave the way for a 'new and better' one. Here we look at why EIS is worth the consideration of companies and investors.



Who is EIS for?

Despite a few amendments over the years, the aim of EIS has always been to help smaller trading companies raise finance by offering a range of tax reliefs to investors who purchase new, full-risk ordinary shares.

The chart above shows the number of companies raising funds in the first 20 years of the scheme, with the peak in 2000 reflecting the dot-com boom. In 2013/14, 2,710 companies raised a total of £1,457 million of funds under EIS.

Two of the key tax breaks are:

- income tax relief - investors may be given income tax relief at 30% on their investments of up to £1,000,000 a year
- CGT exemption - gains on the disposal of EIS shares are exempt from Capital Gains Tax.

For many investors who are new to a company, these reliefs may be the key additional incentives to invest. The income tax relief enhances the effective dividend yield that is anticipated from the investment. The CGT exemption removes gains from a charge to tax, without limit, on shares that have qualified for income tax relief. Therefore, companies wanting to raise finance for a new venture should consider whether the EIS scheme could apply to them. New companies can also consider the junior sister of EIS, the Seed Enterprise Investment Scheme (SEIS).

Neither tax break will be available if the person is 'connected' to the company, for example if the potential investor already controls more than 30% of the ordinary share capital of the company. If a number of individuals are setting up a new venture, an EIS or SEIS scheme could provide tax breaks for any of the individuals who hold less than 30% of the shares.

Where funds needed to establish the new venture are relatively small, the business owners may consider that the time and cost involved in setting up an EIS or SEIS scheme is not worthwhile when offset against the potential gains. But they should not forget the power of the CGT exemption as demonstrated by the recent tax case of the unfortunate Mr Ames.

The skydiver

Mr Ames was a skydiver. Realising that the risks and costs of the sport, together with the British weather, limited the growth of his sport in the UK, he had the idea of teaming up with a small number of other individuals to provide the first UK indoor skydiving simulator.

The company applied for share subscriptions to fall within EIS. HMRC agreed and the company issued Mr Ames with the relevant form for him to submit to HMRC. He never completed the form because, although he had paid £50,000 for his shares in 2005, his income was below the personal allowance for that year and the preceding year.

The company prospered and Mr Ames was able to sell his shares for £333,200 in 2011. When he submitted his tax return for the disposal he submitted the EIS form.

HMRC accepted that all relevant EIS conditions had been met and said that, had Mr Ames made a claim for EIS income tax relief, no CGT would have been payable on the disposal of the shares. However, Mr Ames had not made a claim and was no longer within the time limit. So the capital gain of £283,200 was taxable rather than tax free. The tax tribunal agreed with HMRC.

If you would like to know more about EIS or other business investments and reliefs, please contact your RfM advisor.

A tale of two income taxes

From 6 April 2016, when a fundamental change to the UK taxation system comes into effect, residents in Scotland will pay two types of income tax on their non-savings income.

The main UK rate of income tax will be reduced by 10p for Scottish taxpayers and the Scottish Parliament will instead levy a Scottish Rate of Income Tax (SRIT) which will be applied equally to all Scottish taxpayers. If Parliament decides to set SRIT at 10p then income tax rates will be the same as in the rest of the UK. SRIT can, however, be reduced to zero and there is no upper limit.

Importantly, this change will not just affect Scottish employees and employers. Any employer in the UK will see a change to PAYE procedures if an employee is classed as a Scottish taxpayer. Individuals will be Scottish taxpayers if they are UK tax resident and their sole or main place of residence is in Scotland. So, if an employer based in England recruits someone who stays in temporary accommodation near the employer's base but returns to their home in Scotland at weekends, the employer has a Scottish employee.

HMRC have given some guidance as to what this will mean for employers and there is good news:

- An employer will not have to make any assessments on taxpayer status – HMRC will identify those individuals who will be Scottish taxpayers based on their records of where individuals live. Individuals moving into or out of Scotland will be encouraged by HMRC to notify them of a change of address.
- Scottish taxpayers will have their tax codes prefixed with the letter 'S'. There will be no requirement to include the SRIT separately on payslips but payroll software will however have to cope with the possibility of SRIT not being set at 10%.

What is the likelihood of there being different rates?

SRIT will be set by the Scottish Parliament every year, for only one tax year and for the whole of that year and the rate must be applied equally to all Scottish taxpayers. So if SRIT is set at 12%, a basic rate taxpayer would have a marginal income tax rate of 22% (rather than 20%) with 47% for and additional rate taxpayer (rather than 45%). So lower earners would have a higher increase in their tax bill compared to higher earners.

This factor will not encourage the Scottish government to set a higher rate in 2016. However, Scotland is expected to receive complete control over income tax bands and rates in 2018, under new powers devolved in the Scotland Bill.

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Email enquiries@rfm-more.co.uk
www.rfm-more.co.uk

Chartered Accountants

RfM Preston	01772 431233
RfM Ulverston	01229 582149
RfM Barrow	01229 820003
RfM Fylde	01253 790527

Chartered Management Accountants

RfM Morecambe	01524 566190
RfM Lancaster	01524 566190

Accountants

RfM London	02073 985685