RfM Accountants + more

Summer 2016
www.rfm-more.co.uk

+ more news

Welcome to the summer edition of our newsletter. This issue covers business and tax matters that we think you will find interesting and helpful. If you'd like more information about any of the matters covered, please get in touch.

Taylor-made support leads to new contracts

Being a business client of RfM is not just about getting accurate accounting, your VAT returns completed or help processing your payroll – though we of course can do all those things for you. The most important aspect of a client's relationship with us is that you benefit from the right advice and support based on the needs of your business, and you as a business owner. Over recent months, we have worked strategically with Barrow-based training provider Taylor Made Training to support them in growing the business.

Taylor Made Training, established in 2012, provides NVQ and Apprenticeship training and sources Apprenticeships for young people aged 16-24. The business, owned by husband and wife Garry and Theresa Taylor, works extensively with Carlisle College and has also been looking to grow the business by securing other contracts.

Prior to becoming a client of RfM's Barrow office, Director Garry's experience with accounting professionals had been, at best, disappointing and, at worst, had resulted in the loss of a valuable contract. It could not have been more important for Partner Elaine Harris and her team to exceed Garry's expectations – indeed they had the reputation of the accounting profession as a whole to restore.

With the business still in its infancy and its future not yet secure, Garry sought advice from RfM to strengthen the company's position and improve their chances of winning those all-important new contracts. Elaine and her team worked with Garry to gain an understanding of the financial position of the company and prepared financial statements that could be sent to potential clients as part of the tender process.

This was just the start of the RfM client journey for Taylor Made Training. The support and advice RfM provides is ongoing and evolving in line with the growth of the company which is also about to begin using RfMplus+, our brand new cloud accounting software. The application can be used for standard bookkeeping tasks as well as creating quotes and invoices, banking and financial management and generating detailed reports. Through RfMplus+ and the expertise of his RfM advisors, Garry and his team will always be able to see and understand the full picture of how the business is doing, and make informed decisions to continue taking it forward.

Taylor Made Training provides training and secures Apprenticeships for young people

Garry is full of praise for Elaine and her team who have, we're pleased to report, successfully restored his faith in accounting professionals.

"We were looking for a supportive partner to work with and to help us meet our strategic aims in delivery. We have worked with a number of accountants in the past but none came across as conscientious and professional in the way RfM does.

"How they operate and conduct themselves is key to building relationships and Elaine, Keith Robson and Emily Lawrence have always gone the extra mile in supporting us and understanding our needs."

To find out how RfM can help with the growth of your business, please get in touch.

New office sets sail in Windermere

We regularly advise clients who are looking to expand their businesses, but on this occasion RfM has been putting its own expertise into practice. The seventh RfM office in the North West opened at the beginning of July in Windermere in the Lake District, and our experienced team has lots to offer the vibrant local business community.

RfM South Lakes is part of RfM Lancaster Limited which has its main office in Morecambe as well as a base in Lancaster city centre. The new practice is located on Church Street, Windermere in the office formerly operating as Lakes Accountancy; perfectly placed for businesses trading in and around the picturesque lakeside town.

RfM Lancaster Limited also has plenty of experience providing accounting and business services to the hospitality sector, which it will now bring to the many businesses that serve the vibrant tourist trade.

Experience counts

Clients of the new practice will also benefit from the many years' experience of Partners Peter Armer and Rachel Brownsmith, and Senior Accountant Peter Scott. You can find out more about the senior team in the People section of our website, www.rfm-more.co.uk, and read about Peter Scott's interesting career journey in the News pages.

You can also meet the team in person at their stand at the Westmorland Show on Thursday 8th September.

The new generation of State Pensioners

Those who reached State Pension age on or after 6 April 2016 became the very first recipients of the new, so-called 'flat rate' State Pension. However, whilst the headline flat rate has been set at £155.65 per week, almost everyone is receiving a different amount to this.

The two main reasons for this relate to the old system, which featured an entitlement to additional State Pension for many and lower State Pensions for those who had been 'contracted out'.

We recommend that anyone who is planning for their retirement gets an up-to-date pension forecast. You can do this online at www.gov.uk/check-state-pension (this is a test service) where you will also find details of other ways to obtain a forecast.

Then all you have to do is understand it!

The Work and Pensions Committee raised concerns earlier this year that information sent to individuals regarding when they will receive their State Pension and its expected value were not sufficiently clear and open to misunderstanding. But it is far better to have this information than no information at all.

Minimum Wage increase re-scheduled

Following the introduction of the National Living Wage (NLW) in April 2016, for workers aged 25 and over, many businesses have had to consider their remuneration policies for employees.

The initial rate of £7.20 is a 50p increase in the rate that applied before but, 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.

In a 368-page annual report, the Low Pay Commission recommended changes to the NMW rates, to apply from 1 October 2016. The rate for 21 to 24 year-olds is to increase by 25p to £6.95, for example. The Commission will continue to recommend rates for those under 25 and apprentices that are not detrimental to their employment prospects. It will also recommend rates for NLW with a focus on the government target of reaching 60% of median earnings by 2020 (on latest forecasts this would be £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.

Making tax simpler for small businesses

The remit of the Office of Tax Simplification (OTS), as its name suggests, is to find effective ways to make tax less complicated. And it has been attempting to do so since 2010.

The OTS has recently carried out a review of the simplification of small company taxation (small for this purpose being an incorporated business with fewer than ten employees). These 'micro' businesses now number approximately 4.1 million in the UK, with over 1.3 million of these operating through a company structure.

The review found that the three main reasons for choosing to incorporate were to limit their liability, enhance their credibility and provide a formalised structure.

Tax savings were not found to be a main driver for incorporation. The OTS highlighted this as one of the areas that warranted further investigation – taxing the company owners rather than the company on a 'look-through' basis.

In practice, 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. For companies that tend to distribute all or most profits, however, it suggests the system could work with particular relevance for companies which are effectively one-person businesses.

A second area flagged as being worthy of further investigation was the development of a business structure which provides a person with the key aspects of liability protection without having to incorporate.

Such a business structure already exists in other countries, including France and Chile. One model could be a 'Sole Enterprise Personal Assets' (SEPA) vehicle. In this case, 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.

A response from government

In the 2016 Budget, the government asked the OTS to develop an outline of a SEPA vehicle and a look-through system of taxation. We look forward to seeing how the OTS develops these ideas and will keep you informed of any developments.

Insights, ideas and inventions...

Tax relief for Research and Development

Research and Development (R&D) tax relief can provide additional tax deductions and enhanced cash flow for companies that are eligible. HMRC has introduced 'Advance Assurance' to make it easier for small companies to confirm entitlement.

R&D tax relief can allow a company to claim an additional corporation tax reduction of 26% of the expenditure incurred or, 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 which could significantly improve cash flow for new companies.

To be eligible for R&D tax relief, a company must meet a variety of qualifying conditions. The process of reviewing whether these are met can be time-consuming and costly for small companies so HMRC has introduced Advance Assurance, which gives the potential claimant access to an HMRC specialist who can advise on whether the activities of the business meet the requirements.

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.

Your RfM advisor can apply for Advance Assurance on your behalf. Any discussions about the business must be carried out with a main contact in the company (appointed by the company when applying). HMRC states that most applications can be dealt with over a short telephone call and your advisor will be able to contribute to the discussions as needed.

If HMRC finds that the company qualifies for R&D tax relief, they will then allow the claim for the next three accounting periods with no further queries.

If you're planning to carry out R&D at a future date, you can still apply for Advance Assurance. HMRC will contact you after you submit your first claim to verify that the R&D corresponds with the details in the Advance Assurance application.

If you think your company may carry out Research and Development activities, please get in touch to discuss the available tax reliefs.

FOCUS ON WORKPLACE PENSIONS

Worth the sacrifice?

We look at options for using a salary sacrifice scheme for pensions auto enrolment.

Staging dates for Workplace Pensions auto enrolment are fast approaching for more and more businesses. You'll want to be looking at the most effective way to deliver tax savings for you as the employer and for employees; could a salary sacrifice scheme be the answer?

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 sort of non-cash benefit. The government announced in the 2016 Budget, that it is considering putting limits on the range of benefits that attract income tax and National Insurance advantages when they are provided as part of a salary sacrifice arrangement.

However, we understand that the intention is for pension savings, childcare and health-related benefits to continue to attract these reliefs. Therefore, an option might be for employees to sacrifice part of their salary in return for the employer paying a sum to a registered pension scheme for the employee's benefit.

The right way to set up a salary sacrifice scheme

The recent Reed Employment tax case highlighted that it can be costly to implement a salary sacrifice scheme if you don't do it the right way. To be effective, the arrangement has to reduce the employee's contractual right to cash remuneration which requires these two conditions be met:

1. the employment contract must be effectively varied before the changes are implemented i.e. the employee must give up their salary before they are entitled to receive the remuneration
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 re-writing the contract, setting out the changes in a separate document attached to the contract or by giving employees an 'opt out' option. The 'opt out' clause would specify a time limit for employees to opt out of the salary sacrifice arrangement. Failure to do this would be regarded as an 'opt in'. It is important that employees are kept fully informed of the proposals.

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

Benefits of successful salary sacrifice

Where salary sacrifice is implemented with a pension payment being provided by the employer, the employee will pay income tax and NICs on the lower cash salary. There will be 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 an employee's pension payments would therefore be a saving of up to 12% for the employee and up to 13.8% for the employer.

HMRC approval

HMRC does not comment or advise on any proposed salary sacrifice arrangements; it is not their remit to become involved in employment agreements. They will, however, give assurance once the arrangements for the scheme are in force (for HMRC to do this they require sight of all relevant documentation).

The requirements of salary sacrifice schemes can be complex. If you need any further advice or would like to discuss Workplace Pensions, please get in touch.

Illustration

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.

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

In the first year of the Gift Aid scheme, charities benefitted with £10 million of tax savings. 25 years later, in 2014/15, the savings were almost £1.2 billion.

How Gift Aid works

A Gift Aid donation from an individual tax payer is deemed to be paid by that individual net of basic rate income tax. As the charity is exempt from paying tax on donations received, it can claim the tax back from HMRC (subject to meeting detailed Gift Aid rules).

Higher rate taxpayers can also claim tax relief on their Gift Aid donations that amounts to 25% of those donations. So, additional rate taxpayers effectively receive 31.25% tax relief on any money they give.

From time to time over the last 25 years, amendments have been made to the conditions of the scheme and in April 2016 the Gift Aid declaration was changed. The declaration is the means by which the taxpayer agrees that their donation comes within the scheme, enabling the tax reliefs to flow through to both the charity and the taxpayer.

HMRC has simplified and shortened the model Gift Aid declaration. The new version clarifies that *if an individual has paid insufficient tax to cover the tax reclaimable by the charity, the taxpayer is responsible for paying any difference to HMRC.*

What charities need to do

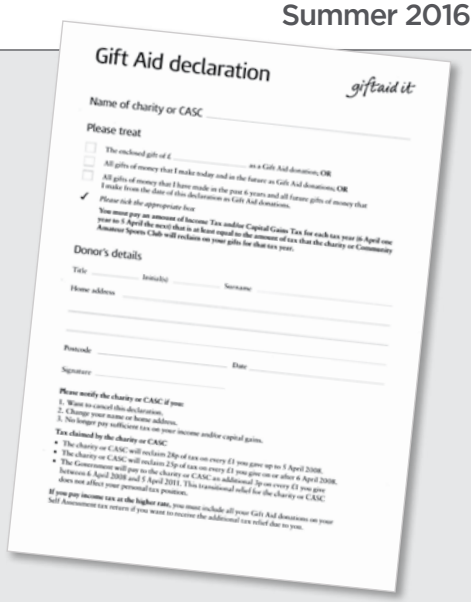
The new style declarations should have been in use from 6 April 2016 except where:

- an individual has signed an old-style declaration form which covers multiple donations (they do not need to make a new declaration)
- a charity holds stocks of printed declarations, ordered and printed before 21 October 2015 (they may continue to use these)

A declaration by a donor can also be made verbally or online, e.g. on a charity's website, but charities must ensure the updated format is used in every case.

Do you need to revoke your declarations?

Individuals who expect to pay little or no tax in 2016/17 should be made aware of the risks of signing new declarations and of having signed declaration forms covering multiple donations. The standard wording on many declarations states: 'I want to Gift Aid my donation of £__ and any donations I make in the future *or have made in the past 4 years'*. This is where it gets more complex. Various changes in personal tax rules in recent years – notably increases in the personal allowance and the introduction of a £1,000 savings allowance in 2016/17 – mean that many more individuals will not pay income tax in 2016/17.



Gift Aid declaration

giftaid it

Name of charity or CASC

Please treat

The enclosed gift of £ _____ as a Gift Aid donation; OR

All gifts of money that I make today and in the future as Gift Aid donations; OR

All gifts of money that I have made in the past 4 years and all future gifts of money that I make from the date of this declaration as Gift Aid donations.

✓ *Please tick the appropriate box*

You must pay an amount of Income Tax and/or Capital Gains Tax for each tax year (6 April one year to 5 April the next) that is at least equal to the amount of tax that the charity or Community Amateur Sports Club will reclaim on your gifts for that tax year.

Donor's details

Title _____ Initial(s) _____ Surname _____

Home address _____

Postcode _____ Date _____

Signature _____

Please notify the charity or CASC if you:

1. Want to cancel this declaration.
2. Change your name or home address.
3. No longer pay sufficient tax on your income and/or capital gains.

Tax claimed by the charity or CASC

- The charity or CASC will reclaim 28p of tax on every £1 you give up to 5 April 2008.
- The charity or CASC will reclaim 23p of tax on every £1 you give on or after 6 April 2008.
- The Government will pay to the charity or CASC an additional 3p on every £1 you give between 6 April 2008 and 5 April 2011. This transitional relief for the charity or CASC does not affect your personal tax position.

If you pay income tax at the higher rate, you must include all your Gift Aid donations on your Self Assessment tax return if you want to receive the additional tax relief due to you.

So, for example, if a non-taxpaying individual makes £80 of donations this tax year, the charity(ies) will claim £20, and £20 will be due from the individual to HMRC. In such cases, it is important to get in touch with the charities to cancel the Gift Aid declarations. Cancelling will not affect Gift Aid donations already made but future donations will not be eligible.

Many higher or additional rate taxpayers will also have signed declarations but not claimed the difference between the rate they pay and basic rate on their donations. This can be done easily, either through a Self Assessment tax return or by asking HMRC to amend their tax code.

Look forward to the Lifetime ISA... if you're under 40

The future launch of the Lifetime ISA was perhaps the most significant announcement made in the March 2016 Budget. Now we have more detail, some experts suggest that many 20 and 30-something taxpayers will turn their backs on the traditional pension and look to the Lifetime ISA as the better way to save for retirement.

Just like a pension, the Lifetime ISA will give savers a top-up from the government of 25% of the amount invested and the money in the savings pot will not be subject to income tax.

Key differences are that savers will eventually be able to withdraw all the funds tax free rather than the 25% you can take tax free from a pension fund. You'll need to be patient though, as the money can't be accessed until you are 60 (rather than 57 – the minimum pension access age set to rise from 55 to 57 by April 2028).

You can, however, access the ISA earlier for the purchase of a first home up to £450,000. If you wish to access the money, the price you pay will be the loss of the government top-up, the accrued income associated with it and a 5% penalty. At present, the government is considering whether it should be possible to withdraw Lifetime ISA funds plus the government bonus for other specific life events.

All that said, pensions still have a lot going for them if you are a higher rate taxpayer. The government top-up for a 40% taxpayer is effectively 67% e.g. £6,000 of pension contributions after **full tax relief provides investments of £10,000.**

The biggest constraint in the Lifetime ISA will be its £4,000 annual investment limit. Basic rate taxpayers who can afford to save more than this could adopt a strategy of utilising their Lifetime ISA allowance first and then saving into a pension.

In the case of a couple using the Lifetime ISA to save together for a house purchase, both parties can each use a Lifetime ISA to accumulate funds.

The Lifetime ISA scheme is not due to start until 6 April 2017 and will be open to any adult under 40 from that date. If you qualify, you can continue to save up to £4,000 each year and will receive a 25% bonus on the contributions you make up to the age of 50. Which is a shame if your 40th birthday is on the 6th April 2017.

If you would like to know more, please speak to your RfM advisor who can refer you to one of our recommended financial services providers.

RfM Accountants + more

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