RfM Accountants + more

Spring 2017
www.rfm-more.co.uk

+ more news

Welcome to the spring edition of our newsletter. We hope you find it interesting and helpful. For more information on any of the matters covered, please contact us using the details on the back cover.

More connections, more opportunities

Earlier this year, RfM supported Miss England 2016/17, Elizabeth Grant, to set off to the Miss World Pageant in style. A luxurious lift to the airport for her flight to Washington was just the first stage of what's set to be a journey full of opportunities. RfM is helping to ensure Elizabeth makes the most of the experience.

Opening doors to opportunities

Despite not bringing home the Miss World crown, Prestonian Elizabeth has found the experience of being Miss England is opening doors to new opportunities in the media. Keen to ensure Elizabeth makes good choices and is fairly represented, her father Des approached RfM Consultant Paul Newsham for advice.

A helpful introduction

Paul has many years' experience advising on the business and financial interests of a number of high profile professional sportspeople. Several of Paul's clients had representation from global sports and entertainment management company, Octagon, so they were Paul's first stop. Through his connections, Paul was able to introduce Elizabeth and Des to Octagon and, as a result, she is now a 'talent' on their books.

With all these opportunities, student Elizabeth also finds herself in need of a good accountant and business advisor. RfM Preston will be ensuring Elizabeth's financial interests are equally well represented.

Who knew that a luxury car ride from Preston to Manchester would take Elizabeth so far!

RfM client Elizabeth Grant, Miss England 2016/17

More than just accountants

The RfM team love a challenge. If you have any accounting, tax or business requirements that are a little out of the ordinary, why not challenge us to help you. **Contact one of our offices or enquire online at www.rfm-more.co.uk.**

Partner Peter joins Lakes music festival board

After completing two terms as a Trustee of Morecambe Bay NHS Foundation Trust, RfM Partner Peter Armer was thinking he might have some extra time on his hands. Then an opportunity came along that he really liked the sound of...

Peter has recently been appointed as a Trustee and Treasurer for Lake District Summer Music, an acclaimed international arts festival with chamber music at its heart. This summer, LDSM will host over 45 musical events in stunning, intimate venues across the South Lakes area.

Peter brings his many years' experience as a high-level financial director to the role. RfM's Windermere practice will also be assisting the registered charity with its financial record-keeping. **To discuss our expertise in accounting for charities, please get in touch.**

RfM sends fundraisers on their bike

RfM regularly supports a number of local charities through donations and fundraising activities. Staff have played golf, dressed down, collected Christmas trees and even walked on fire for good causes. This time, we're helping two friends of the firm to get 'on their bike' for Lancashire charity Baby Beat.

Sean Nicholls and girlfriend Laura Holmes, will be riding coast to coast from Whitehaven to Tynemouth in July – on a bicycle made for two!

Their chosen charity, The Baby Beat Appeal, provides funding for the two Maternity Units and Neo Natal Unit associated with Lancashire Teaching Hospitals NHS Trust. With the charity's support, these units can stay at the cutting edge of new developments. Baby Beat provides equipment and new technology designed to monitor babies from conception to birth and specialist support for premature and sick babies following delivery. The charity also funds research and bereavement support.

Several of the RfM offices have already made contributions to purchase the tandem and ensure the pair have the necessary equipment to complete their challenge.

Sean and Laura will set off from the water's edge in Whitehaven on 29th July and plan to touch the water again in Tynemouth at 5pm on the 30th. They will post a weekly video blog as they train and prepare for the ride which we'll share on our Facebook page: www.facebook.com/RfMAccountants/

If you would like to sponsor Sean and Laura please email awinstanley@rfm-more.co.uk

New tax year, new rate

Changes to the VAT Flat Rate Scheme

Changes to the VAT Flat Rate Scheme (FRS), announced in the Autumn Statement, came into affect on 1 April 2017. Businesses defined as being a 'limited cost trader' will now have to calculate VAT using an increased flat rate percentage. We explain what this will mean for many businesses using the FRS.

The VAT Flat Rate Scheme (FRS) is designed to make it easier for small businesses to calculate the VAT they must pay.

Under the scheme, VAT is calculated by applying a predetermined flat rate percentage to the business turnover. The flat rate is lower than the 20% standard rate of VAT. The percentage is determined by the trade sector in which the business operates and ranges from 4% to 14.5%. Unlike the standard VAT scheme, businesses using the FRS can not reclaim the tax on purchases other than for certain capital assets over £2,000.

As well as lightening the administrative load of VAT, the FRS may also save the business money. If the business supplies services rather than goods they would still charge their customers VAT at 20% for their services, but only pay VAT at the appropriate flat rate. Where the business only makes a limited number of purchases, using the FRS would lead to an overall gain.

Businesses 'taking advantage' of VAT Flat Rate Scheme

The changes are designed to tackle cases where the government considers businesses with 'limited costs' gain too much advantage by using the FRS. Although they are using the correct flat rate for their trade, they have significantly lower costs than most small businesses in the same sector. A new flat rate of 16.5% for certain businesses with limited costs is now in effect as of 1 April 2017.

The government estimates that the new rate will affect 123,000 of the 411,000 businesses using the FRS due to them having limited costs.

What is a limited cost trader?

A business that spends less than 2% of its turnover inclusive of VAT on goods in an accounting period is classed as a 'limited cost trader'. A business will also fall into the category of limited cost trader if it spends less than £1,000 a year on goods – even if this figure is more than 2% of its VAT inclusive turnover.

Exclusions are in place to prevent attempts to inflate costs above 2%. Some businesses will need to perform calculations to work out whether to use the rate for their trade sector or the 16.5% rate.

The new rate and increased VAT liability may lead some businesses to:

- **discontinue using the FRS, or**
- **opt to deregister from VAT altogether in cases where they are under the VAT threshold.**

If you are currently using the VAT Flat Rate Scheme and are uncertain whether the new rate applies to you, please get in touch.

If you do not currently use the FRS and expect your turnover (excluding VAT) to be less than £150,000 in the next 12 months, the FRS may be of benefit to you. Please contact us for advice.

Venture Capital Trusts – over 20 years in the making

Introduced as a tax relief in 1995, Venture Capital Trusts (VCTs) invest in small companies. The rules and reliefs may have been tweaked, but 22 years on they are fundamentally the same. We look at the benefits of VCTs.

Venture Capital Trusts invest in small companies and there are certain limitations on the type of company a VCT can invest in. VCTs are also quoted on the stock exchange.

The specifics of VCTs, such as the reliefs available and rules for qualifying investments, have changed over the years but fundamentally the scheme remains the same.

£400 million tax reliefs

HMRC has collected data over the last few years to show how many investors have used the scheme and the amount of investment claimed. The most recent data for the 2014/15 tax year reveals that investors claimed income tax relief of over £400 million. Each year since 2004/05, the largest group of investors invested under £10,000. Individuals investing between £150,000 and £200,000 made up a quarter of the total amount invested in 2014/15. The maximum investment that can be made each year with tax relief is £200,000.

The tax breaks available to Venture Capital Trusts are not to be sniffed at. An investor can reduce their tax liability by 30% of the amount invested provided that:

- **the subscriber for shares in a VCT retains the investment for at least five years, and**
- **the VCT complies with the investment conditions of the VCT legislation**

Any dividends the investor receives are also exempt from tax and capital gains on the eventual disposal of the shares are also tax free. Investors who acquire the shares second-hand, for instance on the stock market, can also benefit from these two tax breaks.

Tax-free retirement income

Increasingly, investors are turning to Venture Capital Trusts due to reductions in the amount that can be invested tax-efficiently in pension funds. A number of VCTs aim to pay a dividend equivalent to 5% of the initial investment. As such, the investments could be considered as a tax-free source of retirement income. VCTs are more likely to offer new shares to investors during the winter and spring months.

These investments are by nature relatively high risk and new legislation in 2015 imposes greater investment constraints on VCTs.

Key changes include:

- a maximum of £12 million a company can receive from VCTs over its lifetime (£20m for a 'knowledge intensive' company)
- using VCT funds to acquire existing business assets (rather than funding the expansion of businesses) is prohibited.

Find out more

RfM has a network of trusted partner advisors who can help find the best tax-efficient investments for you. **If you would like a referral, please contact one of our offices.**

BUSINESS FINANCE

New bank referral scheme opens doors

Autumn 2016 brought some good news for the many small companies who find it difficult to secure business finance from the high street providers. A new government bank referral scheme ensures that the large lenders will signpost borrowers to a range of alternative funding options.

In 2015, 26% of the 324,000 small and medium-sized businesses approached their bank for a loan or overdraft were initially turned down. Historically, most businesses seeking finance would only ask one lender – usually their bank. And rather than looking for alternative ways to raise the funding, they would often simply give up on the process.

But having been turned down for a bank loan does not have to put an end to your business plans…

Three business finance platforms

In November 2016, the government launched a new bank referral scheme that will provide small businesses with details of alternative finance providers.

Nine of the UK's biggest banks are involved in the initiative. As part of the scheme, the banks will pass on the details of each small business that is rejected for finance to three finance platforms. These are: Funding Xchange, Business Finance Compared and Funding Options. The information will only be shared, however, if the business gives the bank permission to do so.

Linking businesses to providers

The three finance platforms will, in turn, share the details of the businesses seeking finance with alternative finance providers. Their role is to then 'facilitate a conversation' between the small business and finance providers who are interested in lending to them.

The Federation of Small Businesses has long pushed for such a facility to be in place. We hope it will be successful in bringing more competition and choice in the finance market for small businesses.

A wealth of finance and funding options

If you need funding to improve cash flow or get a project off the ground, your RfM advisor can help. As a first step, an RfM advisor will take time to get to know you, your business position and your aims so that they can make recommendations for the right types of finance and funding. This might be one type of funding, or a package of several options depending on what you need to achieve. We can then help you approach providers and prepare financial projections if needed to secure the finance.

And thanks to our experience, knowledge and connections, we can often find funding with better terms than you might be able to get independently.

RfM also features in the Finance & Funding Directory 2017 which details the many options for raising finance available on the market.

To speak with an RfM expert about your business funding needs, contact one of our offices or enquire online at www.rfm-more.co.uk

Getting a mortgage decision when you're self-employed

As a self-employed individual, you'd think it would always be in your best financial interests to make less profit so that you pay less tax. But when you need to apply for a mortgage, you'll want the opposite to be true: larger profits, higher earnings. Whilst we can't change your accounts to make it look like you've made more money, we can help you to get a mortgage decision.

No more Self-cert mortgages

"Before the financial crisis, self-employed applicants might have opted for a Self Cert mortgage – effectively, stating what they earned without the evidence provided by their accounting records," explains Gillian Isibor, Partner at RfM Preston.

"After the 'credit crunch' in 2007, mortgage lenders tightened up their criteria for successfully getting a mortgage. Self Cert mortgages no longer exist.

"You generally need at least two years of accounting records to prove earnings and your ability to pay the mortgage."

To work out how much to lend to you, lenders will generally look at your average profit over the last few years. They also prefer the accounts have been completed by a qualified accountant. Sometimes they even specify that they must be Chartered or Certified.

"In some situations, two years' records may not be available. Or the picture on paper may not be a true reflection of the client's ability to pay," says Gillian."Similarly, a director of a limited company might have chosen to keep profits in the business, rather than take them out as a salary or dividends.

"There are so many reasons why a self-employed person might be turned down for a mortgage. That's why we are pleased to be able to introduce RfM clients to a provider who can help them get a mortgage decision."

Lifetime mortgage decisions

RfM's partner provider, ST&R Limited, can offer RfM clients a one-off Decision in Principal or a Lifetime Decision that will apply to any future re-mortgages or purchases.

To find out more about the service, please call ST&R on 01772 280718. **To arrange a free small business review with an RfM advisor, please get in touch.**

What's the forecast? Check your State Pension entitlement

Self-employed individuals will receive a state pension through the new 'flat rate' scheme. In recent years, there have been several changes to the eligibility criteria, so now may be a good time to check what you're entitled to.

Most people do not realise that it's actually up to the individual to keep track of their own entitlement and ensure that it is correct. Over the course of your working life this can be difficult but sorting out problems with the state pension when the time comes to retire could prove even harder. We recommend you carry out a quick check of your position every four or five years.

If you have been self-employed

A recent case highlights some of the historic problems with the state pension.

The taxpayer retired in 2013. From 1965 until retiring he was both employed and self-employed. Dissatisfied with his state pension on retirement, he queried his National Insurance Contributions (NIC) record. He received a full breakdown of all the contributions he had made during his career and queried several matters on the breakdown, including the periods of nil payment in 1993/94 to 1996/97.

The taxpayer appealed his NIC record from 1965 to 2013 on various grounds, including:

- that HMRC was obliged to send him statements showing NIC due
- that he was submitting income tax returns – and the Inland Revenue and National Insurance Contributions Agency must share information.

In summary, the Tribunal held that the onus was on the taxpayer to have sorted things out during his working life. There were limits to what he could do at the time of retirement.

Child Benefit could affect entitlement

A parent can receive £20.70 Child Benefit a week for their first child and £13.70 a week for each additional child. If an individual (or their partner) has an income of more than £60,000, all the Child Benefit will need to be repaid by an increase in tax liabilities of the higher earner. To avoid this, the individual can choose not to receive the Child Benefit at all. However, if they opt out of receiving Child Benefit, some 'stay at home' parents will miss out on accruing entitlement to the state pension.

The best advice to ensure you don't miss out is to complete the Child Benefit form – which can be filled in online or printed out. The government also recommends you do this.

You can also check your state pension online.

Querying your pension forecast

Once you've checked your forecast, if you think something is incorrect, please get in touch. It's much easier to sort out potential issues now than when you are ready to retire.

HMRC focus on Entrepreneurs' Relief claims

Entrepreneurs' Relief (ER) can provide a valuable relief from tax on capital gains. But, you must follow the rules to make sure you really do qualify for the lower rate of tax.

Entrepreneurs' Relief can provide a 10% rate of capital gains tax on lifetime gains of up to £10 million. So it's certainly a tax relief worth having – providing you are eligible of course. Parliament has levied criticism at HMRC for not checking the validity of enough claims for ER. In response, it appears HMRC are now checking claims more thoroughly.

Share disposals

The key area of focus for HMRC appears to be ER on share disposals. ER will apply to gains on disposals of shares in a trading company provided the individual making the disposal:

- has been an officer or employee of the company (or of a company in the same group) and
- owns at least 5% of the ordinary share capital of the company – and can exercise at least 5% of the voting rights of the company.

The above conditions must apply throughout the year leading up to the disposal of the shares.

If you don't meet the criteria

These two recent Tax Tribunal cases illustrate the risks if you do not meet the ER conditions.

Case 1

The company concerned formed in 1995 and the taxpayer was one of the founding shareholders and directors. In 2009, the company agreed to purchase the majority of the taxpayer's shares. So long as certain conditions are met, this transaction would be viewed the same as if the shareholder had sold the shares. As such it would be treated as a capital gain.

The company also agreed that the taxpayer would resign as a director and his employment be terminated.

At a general meeting in May 2009 the share buy-back was approved but documentation indicated that the employment had been terminated in February 2009. An HMRC enquiry concluded that, throughout the year prior to the disposal of his shareholding, the taxpayer was neither an officer or employee of the company. This finding was upheld by the Tribunal.

Case 2

Two couples owned a company equally. The couple concerned in this case owned 33% of the shares with the remainder being held by the second couple. So at this stage they clearly met the 5% test. A problem arose when a £30,000 loan by the other shareholders was converted into 30,000 new shares.

HMRC argued that the taxpayers did not hold at least 5% of the ordinary share capital of the company throughout the 12 months leading up to the share sale. For part of that one year period, the ordinary share capital had included the 30,000 new shares. So each of the taxpayers had held only 33 of 30,033 £1 shares – significantly less than the 5% of the ordinary share capital required under ER rules.

The Tribunal was persuaded that the new shares were not 'ordinary share capital' and therefore the couple were not caught by the 5% rule.

If you are considering a share disposal in the near future, please get in touch so that we can check your eligibility for Entrepreneurs' Relief.

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