RfM Accountants + more

Summer 2017
www.rfm-more.co.uk

+ more news

Welcome to the summer 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.

HiQ Lancaster acquisition runs smoothly

Over the four years since they took ownership of HiQ garage Lancaster, Steve and Margaret Marshall have worked hard to build and maintain its reputation for high quality. When they looked to expand the business with a second garage, they naturally wanted an accountant who shared their passion for doing things right.

RfM Partner Peter Armer (centre) attended the opening of Lime Tree Garage. Margaret cut the ribbon whilst Steve (foreground) ensured it was a real Marshall family affair.

Steve Marshall was employed as a mechanic at HiQ Lancaster for several years until he was given the opportunity to purchase the garage four years ago. He and his wife Margaret decided the time was right to make the bold move to self-employment, and Margaret left her career in nursing to support Steve in making the business a success.

Four years on, the garage had cemented its reputation for providing a convenient, friendly and high quality service to its customers. Son Joe was now successfully managing the business, and Steve and Margaret were ready for the next stage of the adventure.

Driving the business forward

When Lime Tree Garage in Halton came onto the market, Steve and Margaret decided it was an opportunity they could not pass up. The business had great potential and would be a good fit with the HiQ brand.

Buying the business was a big decision for the family that would involve a substantial financial commitment. They were conscious of the need to seek the very best professional advice, to ensure every 'i' was dotted and every 't' crossed.

Expertise in business acquisitions

The Marshall family turned to their trusted advisor Peter Armer of RfM Morecambe & Lancaster, and RfM South Lakes. Chartered Management Accountant Peter has many years' experience of making commercial financial decisions. His expertise in business sales and acquisitions would prove invaluable to Steve and Margaret.

"Peter was involved in the purchase of Lime Tree Garage right from the beginning, giving us his views on negotiations and, in particular, the value of the business," commented Margaret.

"The financial projections that Peter pulled together allowed us to make objective decisions about the potential of the business. Peter also prepared a narrative business plan that was key to us securing the necessary funding for the purchase. His advice on the structure of the deal was also excellent. I know that Peter's attention to detail and knowledge of acquisitions and commercial negotiations have provided us with significant financial benefit."

Open for business

The new HiQ Lime Tree Garage officially opened for business on 24th May 2017 and Peter was delighted to be invited to attend the launch.

"It's my pleasure to have been able to support the Marshall family to grow their business," said Peter.

"The acquisition of Lime Tree Garage was the perfect opportunity to further establish the HiQ brand in the area. The family all work very hard to live up to the 'high quality' of service you expect from their brand name and I am confident that they will make a great success of the new Halton branch."

For advice on buying or selling a business, please speak to your RfM advisor or enquire online at www.rfm-more.co.uk

Tax relief changes for landlords are now in effect

In the Summer Budget 2015, then Chancellor George Osborne announced restrictions to income tax relief for residential landlords. The proposals became law later that year and came into effect on 6 April 2017. Here we remind you of what the changes mean for landlords.

A summary of the changes

The tax relief that landlords of residential properties can claim for finance costs will be restricted to the basic rate of Income Tax.

The types of finance costs affected by the changes include:

- **mortgages**
- **loans – including loans to buy furnishings**
- **overdrafts**
- **alternative finance returns**
- **fees and any other costs for getting or repaying mortgages and loans**
- **discounts, premiums and disguised interest.**

You will find detailed information about the changes and how they affect you at www.gov.uk.

Calculating your tax liabilities

In the 2017/18 tax year, the restriction of interest relief to basic rate of tax will apply to 25% of the interest. The remaining 75% of the interest will get relief against rental income in the normal way. Landlords will first see the effect in the calculation of their tax liabilities for 2017/18 – the balancing payment for which is due by 31 January 2019.

A higher rate taxpayer will, in principle, get 5% less relief for finance costs (i.e. one quarter of 40% higher rate less 20% basic rate). Although 5% may not sound much, the overall picture can be worse than this due to 25% of the interest not being deductible from income. The result of this might be that total income crosses a threshold, such as:

- **£50,000 – in which case Child Benefit may be clawed back**
- **£100,000 – in which case personal allowances may be reduced.**

The restrictions are only set to get worse; please speak to your RfM advisor if you need clarification on any aspect of the rules.

The impact of Making Tax Digital

HMRC's Making Tax Digital project also has an impact on many property businesses as of 6 April 2017. The government considers that all unincorporated businesses, except for the larger property business, will benefit from using the cash basis for their accounts rather than the usual accruals basis. With this in mind, it is proposing to make the cash basis its default basis.

If a business uses the cash basis, it accounts for income and expenses when the income is received and expenses are paid. Conversely, a business using the accruals basis will account for income received and expenses incurred over the period to which they relate.

Property businesses with cash basis receipts of more than £150,000 will remain on the accruals basis. The cash basis does not apply to property business carried out by a company, an LLP, a corporate firm (i.e. a partner in the firm is not an individual), the trustees of a trust or the personal representatives of a person.

It is proposed that the cash basis will first apply for the 2017/18 tax year. Your tax return for 2017/18, which must be submitted by 31 January 2019, will therefore be the first one completed on the new basis. You will have the option to elect out of the cash basis and stay with the accruals basis. We can help you make a decision on what is best for you later in the year.

For advice on tax relief or accounting for landlords, please get in touch.

Loan or shares? The best way to provide funding to a company

Here's the scenario: your company – or perhaps the company of a relative – needs additional finance to expand. You have the funds to help. What is the best way to provide the finance to the company?

We imagine your first thought would be to make a loan to the company. It would be the simplest option, certainly. You lend the funds and they are repaid or partially repaid when the company no longer requires the monies.

An alternative to providing a loan would be for the company to issue shares. The formalities of the issue and repayment of share capital, however, make this the more complex of the two options.

Your decision may depend on how much of an optimist you are...

The optimist, believing the monies will soon be repaid, will prefer the simplicity of a loan arrangement.

However, we advise that you always guard against the possibility that the finance will not be repaid, for example, if the company gets into financial difficulties and is forced to be wound up. In such circumstances, the provider of the finance will make a loss. But can the blow of such a loss be softened by any tax relief?

It can. And this is where the shareholder wins out over the provider of the loan.

Tax relief on capital losses

A loss made on a loan to a trading company potentially qualifies as a capital loss. Thus the loss is available to relieve against capital gains in the year in which the loss relief is claimed, or in a future year. The maximum tax relief therefore is 28% if, for example, the gain was on the disposal of certain residential properties. Other gains may well be taxed at lower rates than this.

A loss made on shares is also a capital loss. However, there is a potential claim that can be made to offset the gain against income in the year of the loss and/or the previous year. So a higher rate taxpayer could get 40% tax relief.

Can you make a loan and then convert into shares if problems are anticipated?

It sounds like the best of both worlds but the short answer is no. To take this approach could result in significant problems. HMRC may look into a claim to use the loss against income to determine if the company was already in financial difficulty when the shares were issued. They could also use provisions in the tax legislation to restrict the acquisition cost of the shares to a lower figure than the amount of the loan converted to shares.

Similarly, HMRC may question the loss claim if it is made as a 'negligible value' claim, i.e. there is no actual disposal of the shares but a deemed disposal. A seemingly innocuous provision of such a claim is that the shares, at the time of the claim, have become irrecoverable. HMRC could argue that no relief is available if the business was in such difficulties when the shares were issued that the shares should be regarded as irrecoverable from the outset.

One further tip

Still thinking about providing that funding? If you decide to provide the finance in the form of shares repayable to you in due course, it is recommended that these shares are of a separate class to the other share capital of the company. This will make it easier for them to be repaid to you (and avoid unnecessary tax issues).

If you are looking to provide funding for a company or need advice on accessing business finance, please speak to your RfM advisor or enquire at www.rfm-more.co.uk.

PROFILE: GRAHAM PEARSON

Graham's head is firmly in the cloud

We recently welcomed Graham Pearson to the role of Senior Accountant at RfM Preston. Graham has many years' accounting experience, an infectious enthusiasm for cloud accounting and his own hashtag! Here are a few more interesting facts about Graham.

Graham Pearson, Senior Accountant and cloud expert

On leaving school at the age of 16, Graham took his first job at a clothing factory in Westhoughton, near Bolton. The factory specialised in military clothing (think bullet proof vests) although Graham started out making a slightly less exciting product – zips.

Graham spent 12 years at the factory, progressing from humble zip-maker to factory manager. Contracts with suppliers in Romania required Graham to travel to Bucharest several times each year, for days at a time. Over the five years that he visited the city, Graham marvelled at how Bucharest was changing and developing… but he was getting ready for a new challenge.

Next step... self-employment

As a factory manager, Graham had learned the ins and outs of running a business; he decided that the next step of the journey would be to work for himself.

In 1999, Graham became the proud co-owner of an off-licence. He was keen to do everything properly and sought professional advice on how to keep good financial records.

"I had a really helpful accountant who showed me how to do my books," explains Graham. "When it came to do my end of year accounts he said I'd done everything so thoroughly I could do it as a career!"

Which, of course, set Graham thinking.

"It started with one accounting correspondence course. And then another. I enjoyed doing them so much I kept on going until I'd achieved the ACCA's Certified Accounting Technician Qualification."

Tax qualification

Graham ran the off-licence for six years before deciding to pursue a career in the profession he'd only discovered he loved by accident. In 2005, he was recruited to manage an accountancy practice in Bolton.

Graham stayed at the practice for 12 years, during which time he continued to study and achieve the ATT tax qualification. Whilst there, he also made a new discovery that would further fuel his passion for his profession – cloud accounting.

#ETC (embrace the cloud)

"The practice was very forward-thinking; there was a really strong commitment to using technology to make life easier for clients. Once I got used to using cloud-based applications I could see why. Now I'm such an advocate of cloud accounting… I think it's brilliant."

Graham's friends were also surprised when he turned from apparent technophobe to techno-geek.

"I go on about cloud accounting software so much they've given me my own hashtag: #ETC which is short for 'embrace the cloud'. But, joking aside, I really am a cloud super fan – especially of Xero which I've been using for five years now."

Xero cloud software + more

RfM can now offer clients access to Xero cloud accounting along with a number of other packages.

As Graham's such a fan of Xero accounting software, we asked him what he thinks are its three best features…

- **ease of use – even a novice bookkeeper would find Xero straightforward**
- **automatic bank feeds – once it's set up, your banking transactions feed directly into the accounting software**
- **"It's just a joy to use" – not technically a feature but definitely a reason to try it.**

Graham is also Xero Certified, which requires him to undertake training and keep up-to-date with all the latest developments in the software. He brings this certification with him to RfM Chartered Accountants.

"A number of RfM clients have already moved their bookkeeping and accounts to Xero. I'm looking forward to showing many more RfM clients how Xero can revolutionise the way they manage their business finances."

Graham made the move to RfM in the spring so that he could continue his professional development as an accountant. "It's been a steep learning curve and I'm so busy… but I'm loving it!"

And we are loving your enthusiasm Graham (and your hashtag). **Welcome to RfM.**

For more information or to arrange a free trial of cloud accounting software, contact one of our offices or enquire online at www.rfm-more.co.uk

Major changes to car tax rates

If you recently bought or are buying a new car, you will have discovered that new rates of Vehicle Excise Duty (VED) apply for purchases of cars first registered on or after 1 April 2017. If not, you may be surprised by how significantly car tax rates have changed.

Big changes

The big changes are to the charges that apply in the year you purchase the car. Under the old system (before 1 April 2017) the charges were based on CO_2 emissions. They are still based on emissions but the charges are typically much higher than they were before. For example, the rate of VED on a car with CO_2 emissions of 175 jumps from £220 to £800.

In year 2, however, the new system swings in favour of such a car owner as the charges are not based on CO_2 emissions. If the car runs on petrol or diesel there is a fixed charge of £140. There is an additional rate of £310 if the list price of the car is more than £40k.

Low emission vehicles

In percentage terms, the buyers who are most affected are those who opt to buy a low emission car. For a petrol or diesel with 120 CO_2 emissions, you would have paid only £30 a year previously.

For new cars the charge is £160 in year one and £140 in subsequent years.

Take note: If you buy a second hand car, such as an 'ex demo' vehicle, you will pay charges applicable to the VED system that was in operation when the car was first registered. So such purchasers may be tied into the old VED rates.

Making Tax Digital: Are we nearly there yet?

The government has introduced a new term: Making Tax Digital for Business, along with yet another acronym. MTDfB has different start dates for different types of business with unincorporated businesses being the first to see significant changes in how they record and submit their transactions.

The new name reflects the central role that businesses play in the Making Tax Digital project. We expect to learn more about how MTDfB will operate this summer.

Under MTDfB, businesses will be required to:

- **maintain their records digitally, through software or apps**
- **report summary information to HMRC quarterly through their 'digital tax accounts' (known as DTAs)**
- **submit an 'End of Year' statement through their DTAs.**

When will MTDfB start?

Unincorporated businesses and unincorporated landlords with annual turnover:

- **above the VAT threshold** will need to comply with the requirements of MTDfB from the start of accounting periods which begin after 5 April 2018
- **at or below the VAT threshold but above £10,000** must comply from the start of periods which begin after 5 April 2019.

Businesses and landlords with turnovers under £10,000 are exempt. Companies (and partnerships with a turnover above £10 million) do not need to comply with the requirements until April 2020.

What will quarterly accounting mean?

There are no definitive answers to this question at present. The government has made some concessions from its original proposals such as that:

- **businesses that use a spreadsheet to record data will be able to continue to do so** but must ensure that their spreadsheet meets the necessary requirements of MTDfB.
- **businesses will not now be required to submit evidence of invoices and receipts in the form of digital images.**

Each quarter, once the business has compiled all the relevant information into the software, the data will feed directly into HMRC systems. The information HMRC receives will be summary data for the quarter, and businesses will have one month from the end of the quarter to submit the update to HMRC.

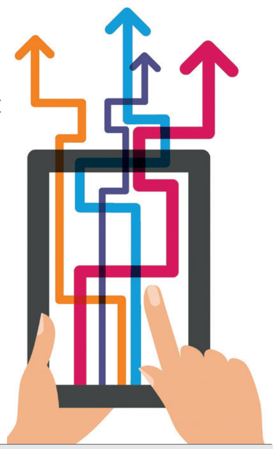
What is the 'End of Year' statement?

The End of Year statement will be similar to the online submission of a self-assessment tax return. Businesses will have 10 months from the end of their period of account or to 31 January following the tax year (the self-assessment deadline) if sooner.

Making Tax Digital for partnerships

The government has proposed staying with the concept of a nominated partner who is responsible for the requirements of MTDfB for the partnership. Partnerships will be obliged to 'push' each partner's share of any profits (or losses) through to their digital tax accounts as part of the end of year activity.

We will continue to monitor the MTDfB project and let you know about important developments that may affect you. **If you have any questions or concerns about MTDfB, please get in touch.**



Make a plan ahead of the Dividend Allowance reduction

We expect to see changes to tax reliefs when a new government comes into power. We don't expect to see a government severely cut a single tax relief just two years after introducing it. Yet that is just what we have seen happen to the Dividend Allowance.

£5,000 'tax-free' Dividend Allowance

Higher rates of taxes on dividends paid to company directors came into effect from April 2016. To lessen the blow of the tax rises, a £5,000 'tax-free' Dividend Allowance was also introduced.

Many taxpayers, in particular higher rate taxpayers, actually found they were better off under the new rules. For example, an individual with a £150,000 share portfolio yielding 3%, would not have to pay any tax on the £4,500 income produced. Before April 2016, they would have been liable for tax at a rate of 25%. Subsequently, Chancellor Philip Hammond announced that the Dividend Allowance will be cut to £2,000 from April 2018, effectively putting paid to that amount of benefit.

Time to make a plan

There is still time to plan ahead to mitigate the effects of the reduction in the Dividend Allowance. If your portfolio yields an average 3%, approximately £67,000 will be protected from income tax. If your portfolio exceeds this figure, you may wish to consider transferring some shares to a spouse or civil partner.

Investing in Equity ISAs may also be a suitable option. An investment of the maximum of £20,000 into an Equity ISA now, with a further £20,000 on 6 April 2018, will protect £40,000 of a portfolio. For a married couple or civil partners, that figure is doubled to £80,000.

Selling your shares – beware CGT

You could also sell your existing shares and buy them back again within the ISA wrapper. Keep in mind when deciding which shares to sell that the transactions will be disposals for capital gains tax (CGT).

You potentially have two opportunities to make use of annual exemption from CGT – this year and next. The current annual exemption is £11,300. Married couples and civil partners can also make transfers to the other partner prior to selling into an ISA.

If you would like advice on planning for the reduction to the Dividend Allowance, please speak to your RfM advisor.

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