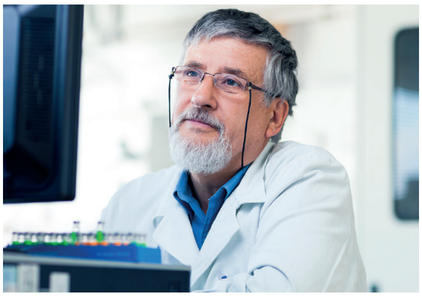
RfM Accountants + more

Autumn 2017
www.rfm-more.co.uk

# + more news

**Welcome to our autumn newsletter. We hope you find it interesting and helpful. For more information on any of the matters covered, please get in touch.**

## Xero proves the winning formula for ProductVision



ProductVision provides innovative software that automates processes, thereby improving accuracy and reducing time spent on essential tasks. The same could be said of Xero accounting software. Could the two prove to be a match made in the cloud?

ProductVision is the UK division of a US-based software company and one of a small number of specialists in its field. The system it has developed – also named ProductVision – is used to calculate the precise values of ingredients used in the formulations of certain types of products. It is used by companies who manufacture products such as paint and personal care products as well as food and drinks companies.

RfM Preston has acted for the business since it launched in the UK in 2000. The director of ProductVision at the time chose RfM for its location as much as its accounting expertise. He used Microsoft Excel software to record business transactions and would duly provide printed copies of documents and original receipts to RfM each quarter.

### Staff located across the UK

The business grew steadily but rather than operating from one base in the North West, ProductVision's employees were located across the UK. The process of submitting receipts for expenses became onerous as staff had to ensure they were delivered to Preston in good time to meet deadlines for tax and VAT returns.

Two years ago, Jonathan Martin took over as director of the business. With the role came the responsibility for managing the company's financial record-keeping and accounts. Little had changed since 2000: the business still used Excel, their accountant was still RfM… but Jonathan and his wife – who would be carrying out the bookkeeping – lived over three hours away from Preston, in Northamptonshire.

"We were doing everything manually," explains Jonathan. "Our team, who work remotely, were still sending us paper copies of their receipts by post. Inputting transactions was slow, laborious and time-consuming. The fact that we trade in multiple currencies – dollars, euros and sterling – was giving us even more headaches. The irony was that our own software automates processes to make life easier for businesses but we were using a system that made life harder."

Jonathan was also having to send original copies of documents through the post to his accountant with the risk that they could arrive late or go missing. There had to be a better way.

### Complex accounting needs

In spring 2017, RfM added Xero to the suite of cloud-based apps that they could offer to clients. It was not a moment too soon for Jonathan.

"We are a large business with complex accounting needs. We were keen to move our accounting to a cloud-based system but it needed to be the right system. It was also important to us to still have the support of RfM as they know our business well."

It's fair to say, he hasn't been disappointed with the experience of switching."To say it's been revolutionary might sound excessive but, in truth, every single one of our finance processes has been made easier with Xero. Many of our tasks are repetitive; we generate a lot of repeat invoices. We use the template model in Xero to create repeat invoices now, so what was a 2-hour task only takes about 15 minutes!"

### Business impact

ProductVision uses many – though not all – of the clever, time-saving features built into Xero. Here are just some of the ways the software has benefitted the business:

VISIBILITY *"We used to have to wait until the end of the year to see the management reports. I can see an up-to-the-minute picture of our financial position at any time just by logging on."*

DIGITAL EVIDENCE *"Staff scan or take photos of receipts now, and upload them directly into Xero themselves."*

EVERYTHING IN ONE PLACE *"We can see any reports that have been created as well as VAT returns, bank statements, invoices, bills and expenses, all in one place."*

### A Xero Certified advisor

Jonathan's main point of contact at RfM is Graham Pearson who is a Xero Certified advisor and able to provide support on all aspects of the application."It's been a pleasure to work with Jonathan and his team to introduce Xero and put the new financial systems and procedures in place," said Graham.

"Xero has made a huge difference to the way the business finances are managed but the area where it has had the most impact is probably staff expenses. Now, every member of staff can log in to the system from wherever they are working to upload their receipts – which saves a lot of hassle, time and stamps!"

"Graham has supported us at every step of the process of moving to Xero," says Jonathan. "The system is really intuitive so now it's up and running we find it very easy to use. We usually only have to call Graham for advice on some of the more complex functions, but he's always able to help."

And all that paper?

"There is no paper. Everything is stored securely within the system. We could print out the records or reports if needed, but we haven't had to yet."

**Xero is suitable for most sizes and types of business. To arrange a demonstration, please get in touch.**

# Saving for a first home
# Lifetime ISA v Help to Buy ISA

The new Lifetime ISA will give you a 25% tax-free boost from the government at the end of each tax year. We look at whether this gives the product the edge over the Help to Buy ISA when saving to buy a first home.

### A summary of the changes

Individuals have been able to open Lifetime ISAs since April 2017 but it is only now that they are available from a reasonable number of providers. You may be wondering whether they are right for you or, if not you, your children.

### Key features of the Lifetime ISA

Adults below the age of 40 can open a Lifetime ISA account and pay in up to £4,000 per year. At the end of each tax year, account holders will receive a 25% bonus from the government.

If the full £4,000 is invested, the maximum you can pay into other types of ISA falls to £16,000. Funds, including the amount provided from the government in bonuses, can be used to buy a first home up to £450,000 at any time from one year after the first subscription. Alternatively, the full amount can be withdrawn completely tax-free from age 60.

So, would you be better off using the Lifetime ISA or the Help to Buy ISA as an investment vehicle to fund the purchase of a first home?

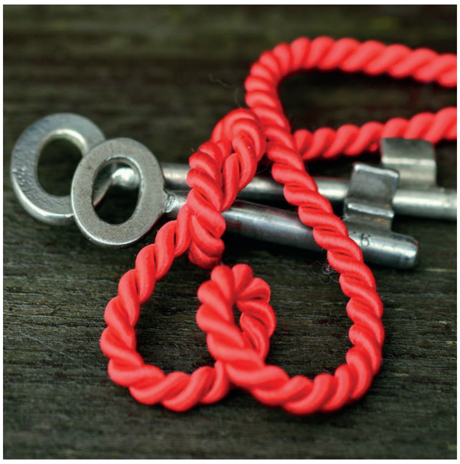
### Key features of the Help to Buy ISA

Help to Buy ISAs were first introduced in 2015. The government also provides an incentive to savers who use this type of ISA as a way to save for a first home. Each person who has saved into a Help to Buy ISA at the point the purchase of their first home is completed will receive a tax-free government bonus.

The maximum bonus – for £12,000 of savings – is £3,000. Savers can not invest more than £3,400 into the Help to Buy ISA in the first year. The limits are £1,200 in month one followed by 11 monthly payments of £200. To qualify for the bonus, you must have saved at least £1,600. The bonus is available on purchases of homes worth up to £250,000 (£450,000 in London).

### Which type of ISA should you choose?

The Help to Buy ISA is a type of cash ISA and individuals can only open one cash ISA in each tax year. To get around this problem, and enable savers to save larger amounts tax-fee, some providers will bundle a Help to Buy ISA and a Cash ISA together.



You can save into a Help to Buy and a Lifetime ISA at the same time but you will only be able to use the bonus from one of the accounts to fund the purchase of your first home.

If you plan to buy your home further into the future, the Lifetime ISA will give you a better return in terms of bonuses. The bonuses are higher and are also received after the end of each tax year. This gives you more opportunity to boost investment returns.

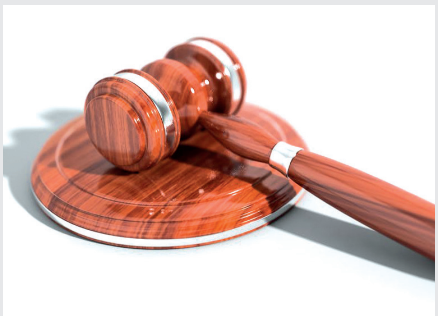
## Buying property off-plan: Principal Private Residence tax relief

An interesting tax case this year resulted in a victory for the taxpayer and heralded some good news for individuals who have bought or are going to buy a property off-plan.

In recent years, buying a property before it has been built – known as buying 'off-plan' – has become much more common practice, in particular with purchases of apartments.

Under UK tax rules, if the purchaser is buying the property to be used as their residence throughout their 'period of ownership', the purchase is exempt from capital gains tax (CGT). This is known as Principal Private Residence (PPR) relief.

If the property is used as a residence for only a part of the period of ownership, then partial relief is available.



The rise in off-plan purchases has thrown up an interesting question: what is the period of ownership if the property can not immediately be used as a residence?

### CGT or no CGT – a difference of opinion

Mr Higgins entered into a contract for the purchase of an apartment in October 2006. The credit crunch of 2007 led to construction being delayed until 2009 with the property finally being completed at the end of the same year. On completion, Mr Higgins paid the balance due and moved in on 5 January 2010. Mr Higgins decided to sell the apartment for a healthy profit two years later.

In this case, HMRC's interpretation of the law was that the property was not used as a residence throughout this period and therefore liable for capital gains tax of £61,000. The owner, Mr Higgins, believed no charge should be payable.

The case focused on two specific but important provisions in the legislation:

- **S28 TCGA 1992** stipulates that a person is deemed to have acquired or disposed of an asset when a contract is made and not, if different, the time at which the asset is conveyed.
- **S222 TCGA 1992** provides that Principal Private Residence relief is available if the property has been the main residence of the individual throughout the 'period of ownership'.

Partial relief is allowed where the property has been the main residence for part of the period.

In most cases, there is little difference between the date of the contract (i.e. a binding agreement to buy) and completion of the contract (i.e. when a person can move into the property). By contrast, there was a period of several years between the date when Mr Higgins decided to buy and the date he could move in.

S28 TCGA can be a very useful provision in CGT planning, particularly when helping the taxpayer decide whether a disposal is made in one tax year rather than another. HMRC argued that it worked against the taxpayer in this case and that Mr Higgins' period of ownership was from 2006 to 2011. By this logic, two sixths of the gain he made on selling the property was eligible for PPR.

Mr Higgins argued that for the purposes of PPR his period of ownership began when he had the right to occupy the property. Therefore the apartment was his main residence throughout the 'period of ownership'.

The Tribunal agreed with Mr Higgins. They found that the 'period of ownership' is not defined in legislation and should be given its ordinary meaning. As such, the period of ownership of a residence will usually begin on the date the purchase has been physically and legally completed and the purchaser has the right to occupy.

FOCUS ON: DATA PROTECTION

# GDPR
# the new data protection rules


If you aren't already aware of GDPR and what it stands for, you will certainly be hearing more about it over the coming months. The new rules for the protection of personal data come into effect in May 2018 and there are implications for most businesses.

The General Data Protection Regulation – GDPR for short – has an official launch date of 25 May 2018. From this date, businesses will have increased obligations to safeguard the personal information they store. This applies to information held about all individuals, whether they be customers, suppliers or employees.

If you are uncertain whether your business must comply with the new rules, in general, companies already subject to the Data Protection Act, will likely have to follow GDPR.

Two key terms have been introduced to help businesses to understand the scope of the regulations: 'data controllers' and 'data processors'.

'Data processors' handle the technical aspects of operations, such as storing, retrieving and erasing data. 'Data controllers' use the data for the purposes of interpretation or decision-making. The two roles are connected i.e. the data processor processes personal data on behalf of a data controller. Under GDPR, there are now obligations for data processors.

## GDPR – broader than the Data Protection Act

GDPR applies to personal data but is wider-reaching than the Data Protection Act (DPA).

Companies that store and use personal data must now actively demonstrate that they comply with GDPR rules. Keeping evidence of compliance is referred to as the 'accountability' principle. Staff training and reviewing your HR policies are examples of compliance. But it is not sufficient to simply carry out the activity – you will need to prove that you have done it.

Under GDPR, higher standards have been set for gathering consent from the people whose data you hold. This means offering people genuine choice and control over how their data is used.

## Data Protection for companies under 250 employees

The new legislation recognises that micro, small and medium enterprises operate differently. With regard to recordkeeping, the GDPR distinguishes between organisations with more than 250 employees and those with fewer. Reassuringly, smaller business have fewer additional requirements than organisations with 250+ employees.

Larger organisations must keep internal records of all data processing activities, whilst smaller organisations need not. Smaller organisations do, however, have to keep records of all activities concerning higher risk processing. The higher risk data category includes the processing of special categories of data or criminal convictions or offences. It also encompasses personal data that could potentially impact the rights and freedoms of an individual.

## Evidence of compliance and consent

The overall aims of GDPR are to rigorously protect personal data and create a minimal data security risk environment. For most organisations, bringing systems in line with the rules will take time and energy. The key priority is likely to be reviewing the mechanisms already in place for gathering consent. In practice, this will mean measures to ensure individuals actively opt-in. 'Pre-ticked' opt-in boxes will be invalid under the new rules.

Organisations will also have to consider existing consents given under the Data Protection Act. The advice from the Information Commissioner's Office (ICO) is that 'you will need to be confident that your consent requests already meet the GDPR standard and that consents are properly documented. You will also need to put in place compliant mechanisms for individuals to withdraw their consent easily.'

If the consents you already have in place do not meet the new standards, you will need to take further action.

## The cost of getting it wrong

The financial cost of not following basic principles for processing personal data and the conditions for consent could be up to 20 million euros or 4% of total worldwide annual turnover (if higher). That is aside from the damage to the reputation of your business.

This article introduces just some of the key features of the GDPR. Visit **www.ico.org.uk** for information and planning points to help your business get ready ahead of the deadline.

# Making Tax Digital brings changes to PAYE

We will soon start to see the effects of HMRC's Making Tax Digital project on the PAYE system. Over the coming tax year, there will be an increase in the number of tax codes being issued. Hopefully, the changes will be good for employees… but only time will tell.

Pay As You Earn – widely known as PAYE – was introduced on 6 April 1944. The system allows for an employee's tax liabilities to be spread over the tax year. It also allows for the amount of tax deducted to be adjusted in line with any variations in weekly or monthly employment income.

The tax code itself was the means by which tax allowances were spread over the year. In an era when most employees had only one job which they changed infrequently – if ever – the PAYE system worked well.

However, our employment habits have changed and the system has been under pressure for some time. Many employees now have more than one job, or are receiving a pension whilst still in work. Changes to income tax rules have also caused problems. Reductions in the tax-free allowance code, used to estimate taxation of benefits and non-employment income, result in many employees having paid the wrong amount of tax by the end of each tax year.

Of the 41 million individuals paying tax through PAYE, around eight million will have either over or underpaid tax at the end of the tax year. Two thirds of these will have overpaid with many of these employees being the lowest paid, earning less than £15,000 a year.

### How is PAYE changing?

HMRC now receive employee information much earlier than before because employers are using Real Time Information (RTI).

According to HMRC, the changes mean that:

- Millions of taxpayers will pay less tax on a monthly basis by the end of the tax year because HMRC will catch any overpayments sooner. This will prevent them from building up.
- A smaller number, who would previously have received an unexpected bill at the end of the year, will pay the right tax from the moment their circumstances change. This will enable them to manage their tax payments better.

### Do employees have to do anything?

In the short term, employees do not need to do anything. When HMRC becomes aware of a change in an individual's circumstances, they will write to the employee regarding the change and issue a new tax code.

The letter from HMRC will encourage employees to use their Personal Tax Account – which is where Making Tax Digital comes in. An individual's Personal Tax Account is linked to HMRC's internal systems and will already hold all the income and tax details that HMRC has. The employee will be able to see information relating to their employment income, PAYE and NIC, and any state retirement pension.

From April 2018, the plan is that interest paid by banks and building societies will also be visible in digital tax accounts. Before this can happen, banks and building societies will have to provide information to HMRC sooner, and more often, than they do now. Taxpayers will also be able to submit other additional sources of income through their digital tax accounts in 2018.

### Do employers have to do anything?

The way tax codes are received is not set to change but employers will see an increase in the number of tax codes that are issued. Revised tax codes must be applied before the next payroll is run.

You can find out more about the changes to PAYE in HMRC's Employer Information and Support pack. This online guide also includes an employee section which explains the benefits of using a Personal Tax Account and how to access it.

# Peer to Peer lending: a valuable alternative for businesses

Not all that long ago, businesses would have to approach their bank for a loan or overdraft when they needed funding to grow or a boost of capital to keep the cash flowing. Now they have a number of viable alternatives to the traditional lenders, one of which is Peer to Peer lending – or P2P for short.

Peer to Peer business lending is one of a number of options now open to businesses looking to raise finance. It can provide a direct alternative to a bank loan and, according to data published by the Peer to Peer Finance Association, over 35,000 UK businesses currently have this type of loan.

### How Peer to Peer lending works

Investors will generally lend an amount of money which forms a small part of an individual loan. Loans are made via an online system which makes it easy for lenders to invest in multiple loans. The amounts available to borrowers range from a few thousand up to several million pounds.

Businesses seeking funding via P2P lending platforms must make an online application and satisfy the qualifying criteria. Borrowers will usually need to demonstrate a track record of trading and submit financial accounts.

Interest rates on Peer to Peer loans may be higher than finance from the bank but P2P has the edge when it comes to speedy decision-making.

If you have concerns about approaching a lender that does not have a bricks and mortar presence on the high street, there are safeguards and guidelines in place. The Financial Conduct Authority (FCA) regulates the Peer to Peer market. Additionally, P2P loans can be held in a new type of Individual Savings Account – the Innovative Finance ISA. This may make P2P even more attractive to lenders in the future.

You can find more information on P2P lending at www.p2pfa.info.

RfM
Accountants + more

**Chartered Accountants**

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

**Accountants**

| | |
|---|---|
| RfM London | 02073 985685 |

**Chartered Management Accountants**

| | |
|---|---|
| RfM Morecambe & Lancaster | 01524 566190 |
| RfM South Lakes | 01539 445412 |

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