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Make it count

Your quarterly newsletter from RLK Accountancy — Spring 2018

Welcome!

It's a great time to think about the year ahead, as 6 April 2018 marks the beginning of a new tax year.

In this issue we give you everything you need to think about to transform your planning into a tax-efficient, profit-maximising future (page 2). Will you be affected by the fall in the tax-free dividend allowance?

For those of you looking to invest in assets, turn to our guide to the Annual Investment Allowance on page 3, where residential landlords will also find advice on tackling the spring refurbishment.

If you're thinking of buying a new car, take a look at the different options for business owners on page 4. And whatever your plans, take five minutes to complete the self-audit checklist for your business.

As always, we're here for advice on your specific circumstances.
Rachel Kowalski

INSIDE

Freelance or employed?

Be very clear on your employment status as mistakes could be costly

If you are a contractor or freelancer, you are probably familiar with the IR35 tax legislation. IR35 sets out to target tax avoidance by contractors who should be employees. The intermediaries' legislation ensures that individuals do not use a corporate structure (*eg* a limited company) to reduce the tax and National Insurance (NI) bill that they would pay as standard UK employees.

Before the high-profile case of a BBC presenter taken to tribunal in February 2018, there hadn't been any intermediaries' legislation cases at tribunal with HMRC since 2011. In this case, Christa Ackroyd Media (CAM) Ltd was seen to be an intermediary for Christa Ackroyd, the individual.

In HMRC's view, Christa Ackroyd should have been an employee as opposed to freelance, and therefore had underpaid income tax and NI amounting to more than £400,000. This was due to the nature of the two long fixed–term contracts and the working relationships between the BBC and CAM Ltd.

In 2017, public sector companies were asked to take over the responsibility for determining an individual's status for tax purposes – employee or self-employed. However, individuals are still responsible for this determination in the private sector. Employment status is not a matter of choice; it is always dictated by the facts.

So, what should you be looking out for as a limited company contractor to check that you fall outside of IR35? If you answer yes to most of the following, you could be a disguised employee:

- *Are you responsible for doing the work yourself?*
- *Can an individual in the 'client' organisation tell you what to do, when to do it and how to do it?*
- *Do you have to work fixed hours?*
- *Can you be told to move onto a different task?*
- *Do you receive overtime or bonuses?*
- *Are you treated the same as your client's employees?*
- *Do you only have one client?*

If you are inside IR35, you can still work through your limited company by paying yourself through PAYE.

If you are still unsure, please feel free to contact us or have a look at HMRC's employment status indicator tool: https://www.tax.service.gov.uk/check-employment-status-for-tax/setup

BBC *client* → **CAM LTD intermediary** *personal service company* → **Ms Ackroyd** *worker*

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Get the WHOLE picture

Plan ahead with our guide to forecasting

Is your business accounting limited to day-to-day book-keeping and the obligatory year end accounts? This is great for reflecting on past performance, but often too late after the event – and it doesn't constitute ongoing forecast and review.

Remember, forecasting is not just about putting figures into a spreadsheet, it's about getting a team together to build an aligned picture of the whole business.

This quarter, we focus on tips for the profit and loss forecast.

1. Frequency of forecast. This could range from an annual budget, to quarterly or even monthly, depending on the business. A consultancy firm with fixed-fee clients might require less frequent forecasts than a chocolate manufacturer, who would have much more variability in their forecasts due to material prices, productivity of labour – and even the weather changing people's buying habits.

2. Decide how far out you need to go. A year is a great start, but to implement a robust strategy, a three- to five-year plan is ideal. The further out you go, the more estimated the numbers will be – for example annual instead of monthly numbers. Set a goal, such as doubling the size of your turnover in three years. Then plan for actions a few years in advance, rather than sitting around the table in three years' time realising that you didn't quite make it.

Look at the recent weather forecasts, they are never 100% but we would rather have snow warnings than no snow warnings!

3. Profit and loss. Start with a simple profit and loss with the following categories:

i) Sales. How much are you going to sell and for what price? You are not expected to have a crystal ball, but a sensible estimate based on past performance and what you do know about the future can impact hugely on how you manage resources, materials and the infrastructure that supports them.

ii) Cost of sales. What is the total cost of labour, materials and manufacturing overheads? This will be driven by your sales number so the more accurate this becomes over time, the greater your production scheduling, purchasing plans and labour plans will be.

iii) Overheads. This would include fixed wages and salaries for the resources you need in place, plus other elements including consulting, rent and rates, motor, travel, office, bank fees, professional fees, marketing, advertising and depreciation.

Please contact us if you would like bespoke models for your business.

Profit and Loss	Y1 £	Y2 £	Y3 £
Sales			
Other Income			
Total Turnover			
Cost of Sales			
Gross Profit/(Loss)			
List of Overheads			
Total Overheads			
Net Profit/(Loss)			

Dividend allowance falls

It's time to review how you're paying yourself

From April 2018 tax-free dividend allowance will fall from £5,000 to £2,000, effective 18/19 and in subsequent tax years. When Philip Hammond announced this change in the 2017 budget, he stated that 50% of those affected are director shareholders of private companies, with the other 50% being investors with shares.

This means that for 18/19, your first £2,000 of dividends are tax free. Beyond £2,000, if you haven't used up your personal allowance of £11,850 by taking a salary for the tax year 18/19, then that element is tax free. After that, it is 7.5% in the basic rate band, 32.5% in the higher rate band and 38.1% in the higher rate band.

Up to £46,350 = basic rate band 7.5%

Over £46,350 = higher rate band 32.5%

Over £150,000 = upper tax band 38.1%

Director shareholders should take this opportunity at the beginning of the new 18/19 tax year to discuss their salary versus dividend strategy with their accountant to ensure that it is still valid, remembering that dividends do not attract national insurance.

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VALUE YOUR ASSETS!

Understanding the rules of the Annual Investment Allowance could entitle you to tax relief

The Annual Investment Allowance (AIA) is a way to claim corporation tax (19% for 18/19) relief on assets that your business buys, to a current limit of £200,000 for each year. This means if you buy certain assets, you can deduct some or all of the value of the item from your profits before you pay tax.

So, what is the difference between an asset and an expense? An asset is something tangible that belongs to your business and has an ongoing value beyond a year. An expense is money that you spend on something that typically doesn't last beyond a year, such as rent, stationery, travel tickets or insurance.

If you think you are going to reach your £200,000 limit in one year, it may be worth delaying further capital expenditure until the following year. Otherwise, any qualifying expenditure over and above the £200,000 AIA will only attract a Writing Down Allowance of 18% per annum for general plant and machinery in the main pool or 8% in the special rate pool.

Once you have identified the cost as an asset, how do you know if HMRC will allow you to claim it as the AIA? HMRC capital allowances manual states that AIA qualifying expenditure must be:

- *expenditure on the provision of plant or machinery wholly or partly for the purposes of a qualifying activity that the person incurring the expenditure carries on, and*
- *the person incurring the expenditure owns the plant or machinery as a result of incurring the expenditure*

Exceptions where you can't claim the AIA for a year are: if you are about to close down your business permanently, you are buying a car, you have received the asset as a gift or it was acquired for purposes other than the business, you lease the items, or the items are only used for business entertainment. (So that bucking bronco may not be such a fun purchase for the office after all!)

You can, however, claim on items such as machines, computers, vans and integral features of a property (but not the actual building, doors, gates or shutters!).

Landlords' key to PROFIT

Look out for opportunities for tax relief when you're maintaining a property

When you are a landlord, rental profits will be taxed at the standard UK income tax rates. Rental profits are the rental income less any expenses that are incurred 'wholly and exclusively' for the purpose of letting out the property. Examples would be letting agents' fees and commissions, repair expenses (not improvements), insurance, phone calls, stationery and travel.

REPAIR OR IMPROVEMENT?

If a tenant reports a broken kitchen cupboard door and the landlord arranges for it to be repaired, that is a repair that can be deducted as an expense. If the landlord refurbished the whole kitchen to the same standard that could also be an expense, as the replacement is 'like for like' and not an upgrade.

If the landlord replaces and upgrades the whole kitchen, that would be an improvement cost enhancing the value of the property and cannot be claimed as an expense, but records should be maintained and offset against any capital gains tax calculations on sale of the property. A grey area would be replacing single glazed windows with double glazed. As double-glazed windows are now standard, that would not be seen as an improvement.

REPLACEMENT DOMESTIC ITEMS RELIEF

In the 16/17 tax year, HMRC removed the 10% wear and tear allowance. This was replaced by a 'replacement domestic items relief', so landlords can deduct the actual costs of replacing certain items. This would cover items that are not a part of the property such as stand-alone white goods, furniture, furnishings, televisions and kitchenware. This expense is limited to the cost of a like-for-like item, and anything over and above that is not allowed.

INTEREST RATE RELIEF RESTRICTION

From 2017/18, there are changes to the amount of interest on property loans that can be claimed as an expense for residential property. The scale below shows how much of the interest expense is subject to restriction:

16/17: 0% **17/18**: 25%
18/19: 50% **19/20**: 75%
20/21: 100%

The amount subject to restriction will attract basic rate tax reduction (20%) on whichever is lower – the interest subject to restriction, the property income for the year, or adjusted total income (total income less savings and dividends less personal allowance).

The rules on property taxation can sometimes be confusing and are often changing, so please get in touch if you would like assistance in reviewing your own situation.

A new pair of wheels

If you're in a spin about how to buy a new car for your business, take a look at the options

LIMITED COMPANY

i) Buy personally

If you buy a car personally that you intend to also use for business, you cannot claim the initial cost or finance costs as an expense. There is also no tax relief on road tax, insurance, fuel or servicing.

However, you can claim the qualifying business mileage against corporation tax. The rates provided by HMRC are worked out to include all running costs and wear and tear. *(See table below.)*

ii) Buy through limited company

This option allows you to claim all day-to-day running costs as expenses. You could also claim capital allowances on the cost of buying the car. For any personal use, you would have to pay income tax, as this is seen as a taxable benefit. There would also be employers' NI to consider.

If you decide to go down the loan or hire purchase route (a finance lease) resulting in the limited company owning the car, only interest payments are an allowable expense and you can claim capital allowances on the cost of the vehicle, depending on its CO_2 emissions.

If the lease is an operating lease (*ie* the limited company will never own the car), you can the claim monthly lease payments. There is a flat rate disallowance of 15% on relevant payments and it applies to cars with CO_2 emissions above a certain level.

Buying through a limited company allows you to claim all day-to-day running costs as expenses.

SOLE TRADER

If you buy a car as a sole trader, it belongs equally to you and the business. You can claim business mileage as per the HMRC rates table, unless you are over the VAT registration threshold of £85,000 or you have already claimed capital allowances on the car.

If you are over the VAT threshold, you can use the full cost method and claim MOTs, servicing, repairs, fuel etc and then work out business versus personal use. If you use the full cost method, you can also claim capital allowances on the business element of the cost of the car.

If, conversely, you decide to hire a car for a business journey then you can claim all associated costs.

If in doubt, get in touch to talk through the best option for your personal circumstances.

Type of Vehicle	First 10,000 miles in the tax year	Each business mile over 10,000 in the tax year
Cars and Vans	45p	25p
Motorcycles	24p	24p
Bicycles	20p	20p

5-minute self-audit checklist

1. Review budgets/forecasts and set goals ☐
2. Allocate owners to each area of the budget/forecast and build achievement of budget into objectives ☐
3. Review staff plan for next year and associated costs ☐
4. Check that accounts contain up-to-date view of creditors (people you owe money to!) ☐
5. Check approval process for paying creditors ☐
6. Chase overdue invoices and identify/deal with slow payers ☐
7. Check that you have the correct insurance in place ☐
8. Are your standard customer and supplier terms up to date and achievable? ☐
9. Have you implemented auto enrolment? ☐

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