RLKAccountancy
Chartered Management Accountants, ACMA, CGMA

Call: 07824 159718
Email: info@rlkaccountancy.co.uk
www.rlkaccountancy.co.uk

Make it count

Your quarterly newsletter from RLK Accountancy

Winter 2017/2018

Welcome!

The new year is a great time to get up to date and compliant with your business finances.

123Reg found that entrepreneurs are more likely to set up a new business in January than any other month of the year. If this applies to you, our guidance on page 4 compares two business structures.

Whether you are new to business or well established, bad debt can affect you. Read our article on page 2 for tips on how to get paid.

Another thing we want to avoid is costly penalties, hence the focus of this issue on compliance for VAT, CIS and Pension Auto Enrolment.

Finally, among other Autumn Budget 2017 updates (see page 4) the increase in the capital gains tax annual exemption to £11,700 in April 2018 may prompt you to consider selling property. We discuss reliefs available on page 3.

Please feel free to contact us for advice on your specific circumstances.
Rachel Kowalski

INSIDE

Should you be VAT registered?

However long you have been in business, it is always worth being aware of the VAT registration threshold and what that means for you

If your business's VAT taxable turnover exceeds the VAT threshold of £85,000 (unchanged for 2018) in a rolling 12-month period, or if you anticipate exceeding this threshold in the next 30 days, you must register for VAT – and you need to do this within 30 days of exceeding the threshold. It is important to note that reaching the threshold is measured on a *rolling* 12-month period, so keep up-to-date accounting records for the past 12 months regardless of your year end.

Watch out! Although on a simple level, the taxable supplies refer to the sales of goods or services, there are certain 'deemed supplies' that should also be added to turnover. One example is certain services received from overseas, even though you receive the supply. Check with your accountant about what you should include when monitoring your VAT turnover threshold.

The positive news is that when you do register, you can claim input tax on goods backdated four years – as long as they have been and still are in use – and services up to six months. As with anything, you will need supporting records.

DID YOU KNOW?

Alcoholic dessert jellies are zero rated for VAT, but be aware – if they are semi-set alcoholic jellies designed to be swallowed as cocktails, you need to standard rate them!

Gingerbread men decorated with chocolate are standard rated for VAT unless the chocolate is no more than a couple of dots for eyes.

HMRC do allow businesses to apply for exemptions in certain circumstances – for example, if you have been awarded a large one-off contract that takes you over the VAT threshold – but it is one-off in nature.

If you are unsure whether you should register or not, HMRC's VAT notice 700/1: *Should I be registered for VAT?* is packed full of information, or you can contact your accountant for clarification around getting started, which VAT scheme to join and what rates to charge.

GOLDEN rules when cash is KING

Keep your business healthy with these tips for cash flow management

You may have a thriving business with a huge customer base, but are you constantly worrying about when the next payment is going to come in? Here are some tips to make sure you get paid:

1. **Attract the right customers in the first place!** By ensuring that your prices are high enough, you will attract clients who expect to pay fair rates. Dealing with late payments can waste so much of your valuable time and cause unwanted stress which is especially critical in small businesses. Don't be afraid to turn a customer down if they haggle too much on the price or don't seem to understand or value what you do.

2. **It is always worth requesting that a customer signs a contract before you begin work.** This doesn't have to be overly complex but should specify the following:
   - *agreed services or goods*
   - *price to be paid*
   - *payment terms*
   - *process for non-payment*

If they are not willing to sign a contract, don't start the work as it could be a sign of problems to come.

Many larger organisations will ask for a purchase order to pay your invoice. Always check with your customer if this is a requirement – and don't start work without one!

With either of these documents in place, you will always have something to refer to in the event of non-payment.

3. **Don't offer credit unless a customer specifically requests it.** The longer the terms, the easier it is for the customer to forget what a great service you provided and deprioritise you on the payment list.

4. **Ask for a deposit**, especially if you are in a trade required to buy up-front materials. For smaller jobs, don't be afraid to ask for up-front payment.

5. **Be organised about your billing system, whether it is manual or online.** You should have a one-pager at any one time showing all debtors (customers who owe you money), amounts they owe and due dates.

Don't be afraid to turn a customer down if they haggle too much on the price or don't seem to understand or value what you do.

6. **Invoice promptly and in accordance with the original contract.** Make sure the due date is clear on the invoice.

7. **Chase promptly and politely by phone** in the event of non-payment and don't be afraid to become more formal if you are not getting a response.

8. **Though it sounds obvious, if you have been stung by a customer in the past, don't use them again!**

The right foundations

Be clear on tax rules for working in the construction industry

Self-employed construction workers must be CIS registered. Register as a new business for self-assessment (https://www.gov.uk/log-in-register-hmrc-online-services/register) to get a Unique Taxpayer Reference (UTR) and subsequently register for CIS through the government gateway online account or CIS helpline on 0300 200 3210.

Once you are registered, the contractors that you work for must deduct 20% from payments to you. This will go towards your tax and national insurance (NI) bill at the end of the tax year, but you are responsible for completing a self-assessment either on paper (31 October) or online (31 January).

Depending on your earnings and business expenses, you will either get a refund or have a tax and NI bill to pay by 31 January. Failure to register or supplying the wrong trading name for your business will oblige the contractor that you are working for to deduct 30% instead of 20%!

Be clear about what you are charging for on your invoice. Contractors will not apply the 20% (or 30%) deduction to VAT, materials, or equipment among other things.

Contact your accountant for help setting up or with the self-assessment.

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An eye on the future

Keep up to date with enrolling staff in workplace pensions

Auto-enrolment for workplace pensions came into force in October 2012, meaning that every UK employer with at least one member of staff was affected. All existing firms had to enrol their staff by April 2017, but all new employers must comply from February 2018. So, what does compliance mean for businesses?

UK employers must put certain ‘workers’ into a pension scheme and contribute towards it if they are classed as ‘eligible jobholders’. Directors of a company without any employees are not classed as ‘workers’ and would therefore not have any auto enrolment duties, even if they pay themselves a salary.

Employers’ auto enrolment duties apply to eligible jobholders, non-eligible jobholders and entitled workers. The Pensions Regulator demonstrates the different categories of worker with a diagram, which you can see online at www.thepensionsregulator.gov.uk/docs/resource-diff-types-of-worker.pdf

Regardless of the category of the workers, all organisations with one employee must declare their compliance online with the Pensions Regulator and complete ongoing duties. This includes continually assessing the workforce, paying contributions and processing any opt-out notices.

Contributions for any employee who opts in will be 1% employer and 1% employee until April 2018; 2% employer, 3% employee from April 2018 to April 2019; and 3% employer, 5% employee from April 2019 to April 2020. It is the employer’s responsibility to deduct employee contributions from their gross salary.

Compliance rests with the individual employer, and failure to comply will lead to a notice or penalty from the Pensions Regulator. This could even lead to a civil penalty notice if an employer fails to pay contributions that are outstanding, which could be up to £5,000 for individuals or £50,000 for organisations.

In terms of the practical day-to-day requirements, most payroll systems can automate the enrolment duties, so it is worth checking that your payroll system is compatible with your chosen pension scheme. Speak to your accountant to understand how auto enrolment affects you.

Thinking of selling a second home?

You may be eligible for tax relief, depending on how you use your property

When you sell a property, you could be entitled to Principal Private Residence relief (PPR) and/or Lettings Relief which means relief from paying tax on part, or all, of any gains made.

PRINCIPAL PRIVATE RESIDENCE RELIEF

The gain will be covered by PPR relief to the extent that you have resided in the property. If you have lived in it at any point during your ownership, you can claim the 18 months preceding the sale too.

You can nominate a property as your main residence within two years of purchasing it. If you have two or more residencies at any one time, HMRC may look at several factors to decide where your main family home is for capital gains tax purposes and you would need to prove a degree of permanence of your living situation.

A recent tribunal appeal in 2016 (Mitesh Kothari vs HMRC TC04915) discussed HMRC’s refusal to grant PPR in respect of the disposal of a property at 3 Park Lane, London. The appellant claimed PPR of £1.174m against a total gain of £1.384m in 2009-2010. HMRC questioned the level of permanence of the appellant residing in the property for six months. Evidence gathered included council tax bills, DVLA and banking correspondence still going to the original four-bedroom family home (Mill Hill); the original property wasn’t let out and was occupied by the appellant’s family. The appellant was trying to claim PPR against a two-bedroom flat which the appellant claimed he had moved his wife and three young children into. The conclusion was that the occupation of Park Lane Place lacked permanence or continuity to be classed as the appellant’s Permanent Private Residence. The appeal was dismissed.

PPR is often claimed by taxpayers, but the above case demonstrates the importance of understanding the circumstances under which it can be claimed.

LETTING RELIEF

If you let out your home, you may be entitled to letting relief of the lowest of £40,000, the amount of PPR, or the same amount of the chargeable gain you made from letting your property.

There are so many different scenarios that can have an impact on the relief that taxpayers are entitled to and it is essential to plan for such scenarios by speaking to an accountant or tax advisor.

Limited company or sole trader?

Two business structures – but what's the difference?

LEGAL STATUS

If you set up as a sole trader, you are one and the same legal entity as your business. This means that if your business profits cannot cover your bills, you are personally liable to pay them. Conversely, a limited company is a separate legal entity to your personal assets.

ADMIN AND PAY

The admin for a sole trader is limited to basic record-keeping and an annual self-assessment. Self-employed status means the profits are yours whether you draw them or not, so you pay tax on them in the same financial year.

Limited company admin is made up of annual statutory accounts, a corporation tax return and a confirmation statement, which can be slightly more complex for a non-accountant. With a limited company, you can leave money in the business if you are in the higher tax bracket this year and plan to withdraw less next year, which can help save some tax. Options to withdraw money from a limited company are salary, expenses, benefits and dividends (dividends only from available profits).

Limited companies tend to be more advantageous tax wise due to the option of drawing a small salary from the company and taking the rest in dividends

Limited companies tend to be more advantageous tax wise due to the option of drawing a small salary from the company and taking the rest in dividends, the first £5k of which are completely tax free for the 17/18 tax year. Bear in mind this is due to drop to £2k for the 18/19 tax year.

IR35

You can't 'use' a limited company just to save tax though, and must be particularly careful if you are a limited company contractor only contracting your services out to one company. HMRC have a great employment status indicator, which helps to identify if a company should be employing you or if you are a genuine freelancer. IR35 can catch you out even if you are set up with the most innocent of intentions, so speak to an accountant about what this might mean for you.

EXPENSES

Consider what you can claim in a limited company versus being self-employed. If you are interested in topping up a pension fund, then a limited company allows you to contribute up to £40,000 which will reduce your taxable profits. When you are self-employed, your contributions vary in line with your earnings. You can also get access to tax free benefits as a director and/or employee of a limited company that you wouldn't have when self-employed.

So, being self-employed gives you simplicity in admin and is quick and easy to set up. A limited company can be more burdensome in terms of admin, but has a few perks and tax benefits that you wouldn't otherwise have access to. If you are unsure of how to structure your business, please contact us.

AUTUMN 2017 BUDGET: MAIN CHANGES 2018 VS 2017

	16/17	17/18
Personal tax-free allowance £	11,500	11,850
Higher rate tax threshold £	45,000	46,350*
Dividend allowance (tax free) £	5,000	2,000
Capital gains tax annual exemption £	11,300	11,700

**Scotland will be confirmed separately by Scottish parliament.*

Small business year end health check

1. Reconcile bank accounts. ☐
2. Check validity of debtors and chase overdue invoices. ☐
3. Check validity of trade creditors. All invoices to be posted and filed, payments made in full where appropriate. ☐
4. Make sure you have claimed all business relevant expenses and kept receipts. ☐
5. Review your records to ensure you have backing for all transactions, including sales and assets. ☐
6. Review asset list and run depreciation. ☐
7. Stock take where relevant.
8. Check balances against prior year for anything unusual. ☐
9. Arrange a meeting with book keeper or accountant. ☐
10. Financial and tax planning for year ahead. ☐
11. Ensure you have key deadlines in your calendar for the coming year for tax bills, accounts, corporation tax return and confirmation statement. ☐

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T: 07824 159718. Email: info@rlkaccountancy.co.uk

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Registered Office: 39 Wear Bay Crescent, Folkestone CT19 6AX

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