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BUSINESS MATTERS

New year resolutions for family companies

With the end of the 2019/20 tax year fast approaching, now is a good time to take a look at your finances to ensure you are minimising your tax liability. Here, we consider resolutions companies could make.

Deliberately decide what to take out

The most tax-efficient way to extract profits for director-shareholders is usually to pay a minimal salary and top up with dividends. The salary level can be pitched to keep state pension entitlement, but stops short of the point at which national insurance contributions (NICs) are due. This strategy can lead to considerable NIC savings.

Dividends have their own tax treatment. Basic rate taxpayers pay tax at 7.5% on dividends, higher rate taxpayers at 32.5% and additional rate taxpayers at 38.1%. Taken alongside the Dividend Allowance (£2,000 in 2019/20), this can produce very favourable results. Remember however that company profits taken as dividends are chargeable to corporation tax.

Where finances are such that you don't need to take profits out of the company, consider leaving them in the company. Retained profits can be used to fund expansion, possibly bringing future business development a step closer.

Think pensions

Extracting profit from your company via pension contributions can be very tax-efficient. If the company makes employer contributions for directors, they are generally free of tax for the director. There is no NIC for the company or the director on the pension contribution. The company should also qualify for tax relief on the contribution. There is potential to make contributions for a spouse also employed by the company.

Review loans from the company

Director-shareholders in family companies often have a 'loan' advance from the company. A director's loan is any money received from the company that is not salary, dividend, repayment of expenses or money you have previously paid into or lent to the company. Loan advances often represent personal expenses paid by the company. That sounds technical, but is actually as simple as putting a pony magazine for your daughter and a six pack of crisps on the company card when you fill up with fuel.

If you have a loan from your family company, the company faces a tax charge, equal to 32.5% of the loan, if it's not paid back within nine months of the end of your accounting period. If you pay it back, there is no tax charge.

There are tax-efficient ways to make the repayment, including awarding a valid bonus or dividend. HMRC is wary of arrangements where a director repays a loan to avoid a charge, then takes out a second loan for a similar amount almost immediately. This is a complex area and we are always happy to advise.

Work out where family fits in

Look for opportunities to involve your family in the business. What areas of work could you effectively delegate? Employing a spouse, sibling or the next generation can mean more opportunities to extract profit from the business before higher rates of tax come into play. The rider is that profit extracted for family members needs to reflect commercial reality, and match the work they actually do.

Please contact us to shape tax-efficient, bespoke solutions for you and your family company.

Inside this issue
- Are you making the most of R&D?
- Staying afloat after a flood
- Has the time come for cryptocurrency?
- Business Round-up
- Tax Tip
- Reminders for your diary

Are you making the most of R&D?

Data published recently by the Office for National Statistics (ONS) revealed that the amount UK companies spent on Research and Development (R&D) totalled £25 billion in 2018. With this in mind, we explore how you can make the most of any R&D tax reliefs available to you.

R&D tax reliefs: the benefits

The government actively encourages companies to carry out R&D in order to help grow their firm and increase profitability. A wide range of tax incentives exist, which are designed to encourage investment in R&D. Different types of incentives are available, depending on the size of the company. These include an increased deduction for R&D spending, alongside a payable R&D tax credit for those companies not yet in profit.

The government has stated that it is 'committed to improving access to R&D' for small and medium-sized enterprises (SMEs). Below, we outline how companies can claim R&D tax reliefs.

Claiming R&D tax reliefs

SMEs are permitted to claim R&D tax relief if they have fewer than 500 members of staff and a turnover of under €100 million, or a balance sheet total of less than €86 million. The relief permits SMEs to deduct an additional 130% of qualifying costs from their yearly profit. This is in addition to the normal 100% deduction, giving a total deduction of 230%.

A company may be able to surrender losses for cash repayments in instances where the R&D tax claim creates a tax loss. Currently, this is calculated at 14.5%.

In order to make the most of R&D tax relief, a company must have incurred expenditure on qualifying R&D projects that are related to its trade. Projects must be innovative and should assess and attempt to resolve scientific or technological issues.

Qualifying expenditure falls into different categories. These include staffing costs; software costs; expenditure on consumables or transformable materials; costs of work done by subcontractors; and costs of clinical trial volunteers.

Using the Research and Development Expenditure Credit (RDEC) scheme

The RDEC scheme is a replacement for the large company scheme, but can also be used by SMEs that have received a grant or a subsidy for their R&D project or are subcontracted to do R&D work by a large company. The credit is taxable, and is calculated at 12% of a company's qualifying R&D expenditure incurred. This credit may be used to discharge the corporation tax liability, depending on whether the company makes a profit or a loss. It could also result in a cash payment. Where no corporation tax is due, the amount can be repaid net of tax or used to settle other debts.

For further information and advice on R&D and claiming R&D relief, please get in touch with us.

Staying afloat after a flood

Dealing with the aftermath of a flood is a challenging time for affected businesses. Although tax may not seem the most pressing issue for businesses trying to stay afloat, complications can arise. Business owners will still need to make tax payments while dealing with other issues, including cashflow pressure, the loss of business records and insurance claims.

Keeping cash flowing

Flooded businesses will still need to pay many of their expenses, despite the fact their income is being seriously squeezed, or has stopped altogether. HMRC's payment deadlines will still loom large, even for a business crippled by flooding. The tax authority can offer payment plans to those in financial difficulty. However, early dialogue with HMRC is essential in advance of payment deadlines.

Loss of business records

Floods can destroy paper and damage computers. Books, receipts and other records needed for filing tax returns could be lost, possibly irretrievably. Even a temporary loss could cause problems in meeting HMRC's deadlines for filing corporation tax, VAT or self assessment returns.

Those affected should not wait until the deadline has passed before notifying HMRC and opening up discussions. Following past floods, HMRC has shown a degree of leniency around filing deadlines, although it must receive advance notification of the delay to filing and a revised submission date.

Insurance recovery

Ideally, most businesses will have flood cover as part of their property insurance, so will be able to make a claim for damages. A full insurance recovery will result in a tax neutral position. However, full recovery is unlikely if there is a policy excess.

After 2018's floods, those small and medium-sized enterprises (SMEs) which suffered losses that could not be recovered from insurance were eligible for a Business Recovery Grant.

Finding relief

The availability of tax relief for expenditure on remedial works to buildings will be an important consideration for business owners. This is particularly the case where there is no valid insurance policy in place.

Expenses that are classed under 'repair and refurbish' will qualify for a deduction against taxable profits as revenue expenses. However, any 'improvements' or enhancements will be regarded as investments and treated as capital expenses, so will not qualify for a deduction against taxable profits.

Learning the lessons

For businesses affected by flooding, reconstructing records and bringing paperwork up to date as quickly as possible will be as important as property recovery. While waiting for income streams to start reflowing, dialogue with HMRC and other creditors will be vital.

Meanwhile, the regular reviewing of insurance cover is a lesson that all business owners can learn from these events.

For further information and advice on this issue, please get in touch with us.

Has the time come for cryptocurrency?

Cryptocurrencies may have attracted their fair share of controversy, but there is little doubt their usage is becoming increasingly commonplace and acceptable. More companies are accepting digital tokens as payment, investors now consider them an asset class, and tax authorities have started laying down guidelines.

What is a cryptocurrency?

Cryptocurrencies are relatively new and technological innovations have led to them being created in a wide range of forms with varying uses. They are cryptographically-secured digital representations of value or contractual rights that can be transferred, stored or traded electronically.

Entering the mainstream

Although cryptocurrencies have not yet become part of everyday spending for the average UK adult, their use is slowly but surely becoming commonplace.

Bitcoin is the best known of the cryptocurrencies, and 2017's spectacular rise in value aroused much interest. That rally highlighted the potential of Bitcoin as an investment; however, it is increasingly available for everyday usage. More businesses are now accepting Bitcoin as payment for goods and services.

Losses and scams

The value of cryptocurrencies can be volatile, and holdings have been subject to cyber loss or theft. Bitcoin value rocketed to over £13,800 during 2017: however, at the time of writing it is trading at around £6,600. Meanwhile, Action Fraud figures show cryptocurrency frauds totalled £2 million during one two-month period.

Tax treatment of cryptocurrencies

HMRC recently issued guidance on the tax treatment of cryptocurrencies for businesses.

The UK tax authority stressed that it does not consider cryptocurrencies to be currency (e.g. pound sterling), stock or marketable securities. This means that any corporation tax and capital gains tax (CGT) legislation which relates solely to currency does not apply to cryptoassets.

However, HMRC makes clear that if a business is carrying out activities that involve exchange tokens, they are liable to pay taxes, including CGT, corporation tax or VAT on them. This includes activities such as buying and selling exchange tokens; exchanging tokens; 'mining' assets; and providing goods or services in return for exchange tokens.

It also requires businesses to keep records of cryptocurrency transactions in pounds sterling, and to keep records of the valuation methodology for these transactions. HMRC previously published cryptocurrency taxation guidance for individuals, clarifying several taxation issues.

Individuals will be liable to pay income tax and national insurance contributions (NICs) on cryptocurrencies that they receive from their employer as a form of non-cash payment, or through mining, transaction confirmation or airdrops.

For further information and advice on tax or investment matters, please get in touch with us.

Business Round-up

UK SMEs owed £23.4 billion in late payments

Late payment debts owed to the UK's small and medium-sized enterprises (SMEs) now total £23.4 billion, according to research.

A survey conducted by Pay.UK, which runs the BACS direct credit and direct debit payment services, showed that debts due from late payments have soared by over £10 billion from the £13 billion total reported in 2018.

Over half of SMEs have experienced overdue payments, and the average debt burden per business has increased to £25,000.

Some 78% of SMEs say they are being forced to wait a month beyond agreed payment terms, while another 45% are being kept waiting over two months. In addition, the bill for chasing late payments has now reached £4.4 billion a year.

Commenting on the research, Paul Horlock, CEO of Pay.UK, said: 'It is concerning that so many smaller businesses are struggling because of late payments . . . especially as there are so many ways they can now get paid.

'Offering customers a choice of payment or automated options can help remove barriers to make sure a bill is settled on time.'

UK minimum wage gets largest ever raise

Millions of UK workers will see their pay rise after the government made the biggest ever cash increase in the legal minimum wage.

The government has announced a 6.2% increase in the National Living Wage (NLW), which applies to workers aged 25 and over. The NLW will rise from the current rate of £8.21 to £8.72 an hour, in the largest raise since it was introduced two decades ago.

The government has confirmed that the new rate will start on 1 April 2020 and will result in an increase of £930 annually for 2.8 million full-time workers earning the NLW.

Workers aged under 25 earning the National Minimum Wage (NMW) will also see increases of between 4.6% and 6.5%, depending on their age.

Commenting on the rise, Bryan Sanderson, Chair of the Low Pay Commission (LPC), said: 'The NLW has been an ambitious long-term intervention in the labour market. The rate has increased faster than inflation, faster than average earnings and faster than most international comparators.

'This has raised pay for millions without costing jobs, although employers have had to make a variety of other adjustments to deal with the increases.'

Reminders for your diary

February 2020

2 Deadline for submitting P46(Car) for employees whose car/fuel benefits changed during the quarter to 5 January 2020.

19 PAYE, Student loan and CIS deductions are due for the month to 5 February 2020.

March 2020

1 New Advisory Fuel Rates (AFR) for company car users apply from today.

2 5% late payment penalty on any 2018/19 outstanding tax which was due on 31 January 2020 and still remains unpaid.

19 PAYE, Student loan and CIS deductions are due for the month to 5 March 2020.

31 End of corporation tax financial year.

End of CT61 quarterly period.

Filing date for Company Tax Return Form CT600 for period ended 31 March 2019.

Last minute planning for tax year 2019/20 – please contact us for advice.

April 2020

5 Last day of 2019/20 tax year.

Deadline for 2019/20 ISA investments and pension contributions.

Last day to make disposals using the 2019/20 CGT exemption.

14 Due date for income tax for the CT61 period to 31 March 2020.

19 Automatic interest is charged where PAYE tax, Student loan deductions, Class 1 NI or CIS deductions for 2019/20 are not paid by today. Penalties may also apply if any payments have been made late throughout the tax year.

PAYE quarterly payments are due for small employers for the pay periods 6 January 2020 to 5 April 2020.

PAYE, Student loan and CIS deductions are due for the month to 5 April 2020.

Deadline for employers' final PAYE return to be submitted online for 2019/20.

Tax Tip

Review your business structure

You may be able to reduce your annual tax bill by reviewing your business's structure, as there are often significant tax savings to be made. During the early years of a business, it may be preferable to operate as a sole trader or in a partnership. However, as your profits increase, you may find it more beneficial to form a limited company.

Incorporating your business also has many non-tax advantages. Incorporated companies enjoy legal continuity, as they are legal entities in their own right. In addition, if a business owner ever wished to transfer ownership, as an incorporated company this can be achieved with greater ease than if trading as a sole trader or in a partnership.

Please get in touch with us for more information.

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