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SHEEN STICKLAND
CHARTERED ACCOUNTANTS Est. 1944

The Quarterly Review - Summer 2018

Running your business as a company

The question of whether to run a business as a limited company is a major decision. Here we look at some of the key areas to consider.

Tax implications

Income tax vs corporation tax

For limited companies, it is the company and not the director-shareholder that pays tax. The current rate for corporation tax is 19%, meaning that the tax due on profits made within a company will be less than the income tax paid by a sole trader or partner with the same profit figure. However, the profits of a company may be subject to income tax and national insurance contributions (NICs) when they are extracted by the director-shareholder.

Extracting profits

Many director-shareholders take a basic salary from the company, and extract profits by way of dividends. If they receive any form of cash remuneration, these are taxed as employment income. Such income is liable to income tax in the normal way.

Director-shareholder salary is tax deductible for corporation tax purposes. Uneven patterns of earnings, which could mean a spike in a tax bill for a sole trader, can be evened out by adjusting director remuneration.

National insurance contributions

Employment income attracts Class 1 NICs, for which both the director-shareholder and the company may be liable. Though employees are not liable to NICs on most benefits, Class 1A is generally due from the employer at 13.8%.

Director-shareholders have considerable flexibility when it comes to NICs. It may be possible to take a small salary of up to the threshold at which NICs are payable (£8,424 in 2018/19), and take the balance of post-tax profits as dividends. Earnings above the Lower Earnings Limit (£6,032 in 2018/19) are deemed subject to NICs at 0%, so paying a salary above this level will accrue entitlement to certain state benefits, even though no NICs are actually paid.

Dividends

Dividends have their own distinct tax treatment and are not liable to NICs. When combined with the Dividend Allowance, which taxes the first £2,000 of dividends at 0% (for 2018/19), dividends can produce a favourable outcome for the taxpayer. But remember that dividends are paid out of taxed profits, meaning that corporation tax also needs to be factored in.

Pension provision

A company may be able to make contributions into a registered pension scheme, subject to certain limits. Appropriate care is needed, and pension contributions must be paid 'wholly and exclusively' for the purposes of the trade in order to be deductible. For sole traders and partners, pension contributions would be considered a private expense.

Leaving profits in the company

Where director-shareholders do not need to extract all the profits from the company to meet current expenditure, profits can be left in the company, opening up further future planning possibilities.

Additional benefits of incorporation

Some other benefits of incorporation might include obtaining limited liability, as well as additional credibility. A company is a separate legal entity from its shareholders. It can own property, sue and be sued. In terms of borrowing, limited company status can allow a bank to take additional security by means of a 'floating charge' over the assets of the company.

Additional responsibilities

Incorporation brings additional administrative responsibilities, which can lead to higher annual compliance costs. Company directors also have certain statutory responsibilities, and as such, they may be at risk of criminal or civil penalty proceedings for non-compliance. Business owners should consider the legal and administrative implications, together with their associated costs, before making any decisions.

We can advise on all aspects of running a limited company – contact us on enquiries@sheen-stickland.co.uk for assistance.

New rules on capital allowances and cars

The tax treatment of cars under the capital allowances system changed with effect from 1 April 2018. The new rules are likely to have a significant impact on many businesses. Here we consider the changes in more detail.

'Capital allowances' is the term used to describe the deduction we are able to claim on your behalf for expenditure on business equipment, in lieu of depreciation. The allowances available depend on what you are purchasing, and there are special rules for cars. Unlike expenditure on most plant and machinery, expenditure on cars does not qualify for the £200,000 Annual Investment Allowance (AIA) and instead only benefits from the writing down allowance (WDA). Any expenditure not covered by the AIA (or enhanced capital allowances) enters either the main rate pool or the special rate pool, attracting WDA at the appropriate rate.

What's changed?

Whether the expenditure enters the main rate pool or the special rate pool depends on the vehicle's CO_2 emissions. Prior to 1 April 2018, expenditure on cars with CO_2 emissions not exceeding 130 g/km was allocated to the main pool, which attracts a WDA rate of 18%. Meanwhile, expenditure on cars with emissions over 130 g/km entered the special rate pool, which attracts an 8% WDA.

However, the government has now lowered the CO_2 emissions thresholds for capital allowances, thus restricting the available tax relief. The changes apply to business expenditure on cars which is incurred on or after 1 April 2018. From this date, expenditure on cars with CO_2 emissions not exceeding 110 g/km enters the main pool, while those with emissions over 110 g/km now enter the special rate pool.

It should be noted that the reduction in the emissions threshold from 130 g/km to 110 g/km will not apply to expenditure incurred under car hire contracts entered into before 1 April 2018 (corporation tax) or 6 April 2018 (income tax) for the purposes of the lease rental restriction. In addition, from 1 April 2018 the 100% first year allowance for expenditure on cars has been reduced for cars with CO_2 emissions of 75 g/km or less, to just 50 g/km.

Reviewing your expenditure

There are only a few vehicles which meet the 50 g/km test, so not identifying the change could be costly. Businesses may want to take the opportunity to review their expenditure on business cars and consider some of the more tax-efficient options that may be available. There may be savings to be made from using goods vehicles, which are subject to different tax rules.

We can help you to make the most of the tax reliefs available to your business.

Are you missing out on R&D tax relief?

Recent statistics have shown that the number of companies claiming research and development (R&D) tax credits increased by 19% in the 2015/16 tax year, with the total amount of R&D claimed rising to almost £2.9 billion. While this is good news for many businesses, it is thought that thousands more may still be missing out on this potentially valuable tax break.

The government has increased the value of tax relief available under the R&D scheme over recent years, in an effort to encourage economic growth.

The incentives are only available to companies, and there are different types of relief, depending on the size of the company. Here we focus on the relief available for small and medium-sized enterprises (SMEs).

R&D: what are the benefits for SMEs?

SMEs can claim SME R&D relief if they have fewer than 500 members of staff and a turnover of under €100 million, or a balance sheet total under €86 million.

The relief allows companies to deduct an extra 130% of qualifying costs from their yearly profit. This amount is in addition to the normal 100% deduction, giving a total deduction of 230%. R&D enhanced relief represents an additional corporation tax reduction of 26% of the expenditure incurred.

If the R&D claim creates a tax loss, then the company may be able to surrender the loss for a cash repayment. This is 14.5% for expenditure incurred on or after April 2014. A surrendered loss could therefore give a repayment of up to 33.35% of the expenditure.

Qualifying projects

In order to claim the relief, the company must have incurred expenditure on qualifying R&D projects that are relevant to the company's trade. A project should address an area of scientific or technological uncertainty, and be innovative. The innovation needs to be an improvement in the overall knowledge in the relevant field of research, not just an advancement for the company.

Types of expenditure

Qualifying expenditure which is

incurred on activities which are either directly or indirectly related to the R&D project fall into different categories. These are as follows:

- staffing costs
- software
- expenditure on consumable or transformable materials
- costs of work done by subcontractors and externally provided workers
- costs of clinical trial volunteers

To be eligible, expenditure must be revenue in nature and paid by the time that the R&D claim is accepted. This means any accruals for expenditure have to be monitored carefully after the year end to make sure that they are paid and not written back to profit.

We can help you to make the most of the tax reliefs available to your business.

Business and Tax Round-up

Government publishes Making Tax Digital for VAT legislation

In March 2018, the government published the Value Added Tax (Amendment) Regulations 2018, which set out the requirements under Making Tax Digital for VAT (MTD for VAT).

The new regulations are set to take effect from 1 April 2019, and will apply to businesses which have a taxable turnover above the VAT registration threshold, which currently sits at £85,000.

Under the government's MTD regime, taxpayers will ultimately move to a fully digital tax system, and will be required to register, file, pay and update their financial information using a secure online tax account. The government has previously stressed that keeping digital records and making quarterly updates will not be compulsory for taxes other than VAT before April 2020.

From April 2018, HMRC is live piloting MTD for VAT, and a number of UK businesses have been invited to take part. Participating businesses will be able to submit VAT returns using the new digital system, and will have the opportunity to influence how the system works, looks and feels.

The government intends to expand the MTD pilot over the coming months.

Meanwhile, HMRC has also launched an MTD pilot for income tax for self-employed taxpayers. This pilot is open to sole traders with income from only one business, whose current accounting period ends after 5 April 2018.

Chancellor delivers first Spring Statement

On 13 March 2018, Chancellor Philip Hammond delivered his first ever Spring Statement speech, in which he responded to the latest economic forecasts published by the Office for Budget Responsibility (OBR).

The annual Spring Statement forms part of the Chancellor's new Budget timetable, which has seen the main annual Budget move from its traditional Spring setting to the Autumn.

The Chancellor used his speech to report on the progress made on a number of measures announced in the 2017 Autumn Budget, as well as announcing some future measures. This included the announcement that the next business rates revaluation will be brought forward from 2022 to 2021.

Mr Hammond also launched a number of consultations, including a new consultation examining the effect of the current VAT registration threshold on small businesses, as well as consultations relating to changes to Entrepreneurs' Relief, and using the UK tax system to encourage the 'responsible use of plastic'.

New incentives to encourage the 'great British white van driver' to go green were also unveiled, whilst £20 million from existing budgets will be given to businesses and universities to help fund research into ways in which the impact of plastics on the environment can be reduced.

Meanwhile, over £1.5 billion has been allocated to departments and devolved administrations in preparation for the UK's exit from the European Union.

OTS launches review into inheritance tax

The UK inheritance tax (IHT) system has changed considerably since its introduction, and previous rises in residential property prices have resulted in the number of people who may fall within the scope of this tax increasing over time.

IHT is currently charged at 40% on the proportion of an individual's estate exceeding the 'nil-rate' band of £325,000, although a further nil-rate band of £125,000 may be available in relation to current or former residences. Nil-rate bands of surviving spouses or civil partners may also be increased by utilising any unused nil-rate band of the deceased spouse or civil partner.

The Chancellor commissioned the Office of Tax Simplification (OTS) to review a range of aspects relating to IHT, and provide advice on ways in which the tax can be simplified. The review will look at the process relating to submitting IHT returns and paying any tax; various gift rules; estate planning procedures; and complexities arising from the reliefs and their interaction with other taxes.

In March 2018, the OTS published its scoping document, setting out its aims. It intends to publish a report in Autumn 2018, providing an evaluation of the current system and identifying opportunities for improvement.

The government may consider addressing some of the issues raised by the OTS report in the 2018 Autumn Budget.

Requirement to correct on offshore assets

New legislation has been introduced which requires taxpayers in the UK to declare all of their tax liabilities in relation to offshore assets.

The legislation, known as the Requirement to Correct (RTC), obliges taxpayers to correct any tax non-compliance occurring before 6 April 2017. All UK income tax, capital gains tax (CGT) and inheritance tax (IHT) needs to be disclosed to HMRC by 30 September 2018. Currently, there is no obligation to agree and pay the amount of tax, interest or penalty that may be due.

This deadline is also the date when more than 100 countries will exchange data on financial accounts under the Common Reporting Standard (CRS). This will significantly increase HMRC's ability to detect offshore tax liabilities.

Failure to disclose the relevant information by the deadline will result in taxpayers being issued new 'failure to correct' (FTC) penalties, which are set to be much higher than existing penalties, with the smallest penalty starting at 100% of the tax due.

The RTC applies regardless of the reason behind the non-compliance.

Normal assessing rules apply to non-compliance after 6 April 2017.

Web Watch
Essential sites for business owners

ico.org.uk/for-organisations/guide-to-the-general-data-protection-regulation-gdpr

Provides a detailed guide to the General Data Protection Regulation.

britishchambers.org.uk

Offers support for businesses all over the UK, and provides information on your local Chamber.

hireanapprentice.campaign.gov.uk

Supplies details on how to go about hiring an apprentice.

gigabitvoucher.culture.gov.uk

Offers information on how small businesses and individuals can apply for broadband vouchers.

Tax Tip: A family affair

Have you considered employing family members in your business? As long as they are not minor and you can justify their involvement, you can employ them in your business. In a limited company, they can be remunerated with a salary, receive benefits, and be included in your company pension scheme. If you are in a partnership, you can still include them and gain flexibility in profit allocation.

Please get in touch to discover the most tax-efficient way to involve your family in your business.

Please visit our website to find more articles from our quarterly review or sign up to our e-newsletter for the full digital version of OnAccount. www.sheen-stickland.co.uk

Reminders for your diary

June 2018

1	New Advisory Fuel Rates (AFR) for company car users apply from today.
19	PAYE, Student loan and CIS deductions are due for the month to 5 June 2018.
30	End of CT61 quarterly period.

July 2018

5	Deadline for reaching a PAYE Settlement Agreement for 2017/18.
6	Deadline for forms P11D and P11D(b) for 2017/18 to be submitted to HMRC and copies to be issued to employees concerned.
	Deadline for employers to report share incentives for 2017/18.
14	Due date for income tax for the CT61 period to 30 June 2018.
19	Class 1A NICs due for 2017/18.
	PAYE, Student loan and CIS deductions due for the month to 5 July 2018.
	PAYE quarterly payments are due for small employers for the pay periods 6 April 2018 to 5 July 2018.
31	Second payment on account for 2017/18 due.

August 2018

2	Deadline for submitting P46(Car) for employees whose car/fuel benefits changed during the quarter to 5 July 2018.
19	PAYE, Student loan and CIS deductions are due for the month to 5 August 2018.

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