Small Business

Specialist Small Business Accountants

Newsletter
Winter 2017

www.hawsons.co.uk

Introduction

Welcome to our Winter 2017 small business newsletter.

In the wake of the EU referendum result, and with Britain still waiting for Article 50 to be triggered, there is uncertainty surrounding British business. In this edition, we look at the role of small businesses within the UK economy and also look at changes on the horizon for business owners.

In this issue, we look at:

- Autumn Statement
- Rising wage costs for employers
- Small companies are a vital part of the UK economy
- Changes to tax relief for high earners
- Making Tax Digital
- Cloud accounting

We hope you enjoy this edition of our newsletter and, as always, please get in touch if you would like any further information.

Scott Sanderson
Partner

E: ss@hawsons.co.uk
T: 0114 266 7141
M: 07824379502
Twitter: @HawsonsSME

Hawsons are specialist small business accountants

Our Business Services Department is dedicated to helping the smaller business. We help businesses of all forms, including sole traders, partnerships, limited companies and LLPs.

Starting up a new business is a challenging process and there are many aspects a small business owner must consider. We have a proven track record in helping small businesses get off the ground and continue to grow. Our clients choose Hawsons because we understand their needs and find them the right solutions, at the right time. Our small business specialists can help in all aspects of setting up and running your business, providing advice in Sheffield, Doncaster and Northampton. For more information on our small business expertise, including the services we offer and our experience, please visit: **www.hawsons.co.uk/business-services**

HLB International

Autumn Statement

Philip Hammond delivered his Autumn Statement on Wednesday 23rd November 2016. His speech set out both tax and economic measures the government will implement. In this article, we summarise the key points arising from the Autumn Statement and focus on what the changes may mean for small businesses.

In Summary (general):

- The government reaffirming the objectives to raise the personal allowance to £12,500 and the higher rate threshold to £50,000 by the end of this Parliament.
- Reduction of the Money Purchase Annual Allowance.
- Confirmation of falling Corporation Tax rates to 17% from April 2020.
- Review of ways to build on research and development tax relief.
- Tax and National Insurance advantages of salary sacrifice schemes to be removed.
- Anti-avoidance measures for the VAT Flat Rate Scheme.
- Confirmation that future budgets will be in Autumn annually going forward.

In addition, the Chancellor announced the following pay and welfare measures:

- National Living Wage to rise from £7.20 an hour to £7.50 from April 2017.
- Universal Credit taper rate to be cut from 65% to 63% from April 2017.

Draft legislation relating to many of these areas will be published on 5 December and some of the details may change as a result.

In summary (SME specific)

- National Living Wage set to rise by 30p – from £7.20 to £7.50 per hour from April 2017.
- £2bn per year investment R&D into technologies such as robotics and biotech.
- Growth forecasted to slow and inflation rises expected in the next two years.
- Rural Rate Relief increase set to give small business in rural areas a tax break of up to £2,900 per year.
- Developing digital infrastructure to help productivity.
- Tax-free childcare will also be of benefit to SMEs who employ self-employed and part-time workers.

Autumn Statement SME impact

Falling tax rates but increasing wages costs

Scott Sanderson, Partner at Hawsons, commented: “The proposed £2bn annual investment into R&D to help increase the country’s productivity is welcoming news for businesses, in addition with falling Corporation Tax rates to 17% by 2020. The chancellor, Philip Hammond, as expected, did announce a rise in the National Living Wage of 30p to £7.50 from April 2017, which will continue to have a significant financial impact to SMEs. We find that the main cost implication of these rises is not the uplift of the NMW/NLW, but the maintaining of pay differentials, reflective of roles, responsibilities and of course skillset.”

“There is good news for rural-based SMEs with the increase in the Rural Rate Relief. This has been increased to 100% which will allow a tax-break of up to £2,900 per year so this has been welcomed news for rural businesses. The introduction of tax-free childcare has also been greeted with general positivity as it will help those returning to work, as well as those who are self-employed and part-time workers.”

Rising wage costs for employers

National Minimum Wage

The government announced increases to the National Minimum Wage which came into effect on 1 October 2016, after accepting recommendations for the new rates from the Low Pay Commission (LPC).

The main National Minimum Wage rate (for 21- 24 year olds) has risen by 3.7% from £6.70 to £6.95 per hour, as the table below shows.

	Current rate	Rate from 1 October
21-24 year olds	£6.70	£6.95
18-20 year olds	£5.30	£5.55
16-17 year olds	£3.87	£4.00
Apprentice rate*	£3.30	£3.40

*This apprentice rate is for apprentices aged 16 to 18 and those aged 19 or over who are in their first year. All other apprentices are entitled to the National Minimum Wage for their age.

The table below shows the historic wage increases for the National Minimum Wage:

Year	21 and over	18-20	Under 18	Apprentice
2015	£6.70	£5.30	£3.87	£3.30
2014	£6.50	£5.13	£3.79	£2.73
2013	£6.31	£5.03	£3.72	£2.68

The National Living Wage

From 1 April 2016, following the introduction of the new National Living Wage, all workers aged 25 and over are legally entitled to at least £7.20 per hour. This was, however, until the Chancellor delivered his Autumn Statement, where he announced that the National Living will increase by a further 30p from April 2017 to £7.50 per hour. The National Living Wage rates are set to increase gradually alongside rises in the National Minimum Wage, and is projected to rise to more than £9 per hour in 2020.

A four-step checklist for employers following the announcements is:

1. **Know the correct rate of pay (including the National Living Wage)**
2. **Find out which staff are eligible which rates**
3. **Update the company payroll and keep an eye out for future announcements**
4. **Communicate the changes to staff as soon as possible**

Moving forward – more compliance for employers

National Minimum Wage and National Living Wage rates will now change every April, as opposed to every October and April respectively.

This is a positive change, but does mean that the above rates will only be effective up until 31 March 2017.

Following the introduction of the new National Living Wage in April 2016, and the imminent increase of the NLW, this will see be the fifth round of wage increases (in some form) in just two years. It is therefore unsurprising to see that many small (and indeed large) business owners are finding running their payroll an increasingly complex and time-consuming task. The compliance obligation on employers has never been greater and there has never been a better time to consider outsourcing your payroll.

Small companies are a vital part of the UK economy

Small companies are a vital part of the UK economy. In 2015 it was estimated that there were nearly 5.4m small businesses in the UK. These in turn provided almost half of all private sector jobs – more than 12m – and produce an annual turnover of £1.2 trillion, 33% of private sector turnover.

People choose to set up a small business for a variety of reasons – independence, the ability to fulfil a market need, the ability to generate wealth and rewards. Small businesses form the engine room of the economy, and play a vital role in creating jobs, delivering innovation and helping to drive economic growth. Starting a business is a big decision, and running one and surviving is a further and bigger challenge. The stats on small business longevity are sobering also showing that for every 10 new businesses that are created, the life cycle of six existing ones is less than five years.

If you set up in business, you need to understand what you are letting yourself in for, and that the statistics would suggest that your chances of failure are greater than your chances of success. But this does not mean that you should sit back and let chance decide your fate. Some of the reasons behind small business failures are predictable, and by adapting your behaviour you – as the owner – will increase your chances of success.

So, what are the key things to bear in mind as a small or new business?

1. Plan, plan, plan

Many small businesses plunge into the competitive arena of setting up without a formal business plan. Sometimes early sales success reinforces the belief that a plan is not required. However, the benefits of good planning will far outweigh any temporary loss of earnings at the outset of the business. A well-written business plan will help to communicate the unique selling proposition for your business and why people should part with their cash to buy your products or services.

Producing a business plan is only the start of the process. Monitoring progress regularly is essential so that any changes to your business plans, such as cash flow problems or sales and revenues falling short of targets can be picked up quickly and any necessary action taken. Many businesses fail not because they are unprofitable but because they do not manage their cash resources and are unable to pay their debts. Up to date business information will also prove useful in supporting finance applications, and enable the owner to renegotiate any borrowed finance before an urgent need arises.

2. Cash is King

As we have already mentioned, the need to manage cash is crucial to a small business's ability to survive and grow. Ensuring that payment terms are clearly defined in contracts will help to avoid any misunderstandings with customers and help you plan when you receive payment from them.

Customers, especially if they are large companies, can see small suppliers as a source of working capital by paying late as small businesses are often reluctant to take action for fear of jeopardising that relationship. As a small business, you need to build into your financial plans that you may experience later payment as a result. Having up to date and accurate accounting information is crucial in helping a small business plan its cash flow requirements.

3. Be adaptable

Running your own business is stressful. You will need to withstand long periods of uncertainty while managing a range of business risks. These are vulnerabilities that come with the territory and you will need to cope. The key is to accept these pressures as inevitable and to develop the ability to respond positively. As a business owner, you need to take time to consider contracts carefully before signing them to ensure that the rights and responsibilities of all parties are clearly set out and understood so that they lead to improved cash flow and profitability.

Many owners are not experienced in evaluating the relative benefits and costs of capital expenditure and other long-term investments. They can take a simplistic view, often based on very roughly estimated payback periods and not taking into account some of the variables that might sensibly be considered in financial decision making such as the cost of finance or the time value of money more generally.

How can Hawsons help?

Small businesses are the biggest beneficiaries of online cloud accounting and there are numerous ways in which moving to the cloud can be of value. Working in the cloud will give you the opportunity to reduce the amount of time you spend working on tedious, time-consuming tasks, allowing you to concentrate on what you do best: growing your business. You can also be confident that you will have greater access to real-time data for your business – no matter where you are – as business information is accessible any time, any place, on any device that has internet access (much like internet banking). This will enable you to be able to base business decisions and plans on reliable accurate information.

Changes to tax relief on pensions for high earners

If you are a higher earner, pension contributions can be a very tax efficient way of saving for your future. However, changes were brought into force from 6 April 2016 which will reduce the relief available for some individuals with high incomes.

The changes to tax relief on pensions for high earners

Generally personal pension contributions, whether you are a basic, higher or additional rate taxpayer, receive basic rate tax relief of 20% (subject to the maximum requirement of the higher of £3,600 per annum or 100% of net relevant earnings, which is explained below). The basic rate relief is paid directly into your pension pot by the government, i.e. £8,000 paid in by you equates to a total gross contribution of £10,000.

Higher or additional rate taxpayers can claim further tax relief up to a total of 40% or 45%, i.e. a further £2,000 or £2,500. Following the previous example, this means you could receive total tax relief of £4,000 or £4,500 on a net contribution of £8,000.

Pension contributions can also mitigate the loss of your tax free personal allowance. If your income exceeds £100,000 you lose £1 of your allowance for every £2 of that excess, meaning you are paying a marginal tax rate of 62%! Pension contributions reduce what is known as your 'adjusted net income' for these purposes. Therefore, you could potentially retain all of your personal allowance if you make large enough relievable contributions.

Similarly, if your income exceeds £50,000 and you are affected by the child benefit clawback charge, pension contributions will reduce your adjusted net income for these purposes and could therefore mitigate the loss of your child benefit.

The amount of personal contributions you can receive tax relief on is restricted firstly by your 'net relevant earnings', which includes income from employment, self-employment, partnerships, etc. but not things like income from investments, rental properties, etc. You can receive tax relief on pension contributions up to the gross equivalent of your net relevant earnings each tax year.

The annual allowance also limits the tax relief you can receive on your contributions. It is currently £40,000 (having previously been as high as £255,000 in 2010/11). You can carry forward unused amounts of annual allowance from the previous 3 tax years, providing you were a member of a registered pension scheme during the earliest year. Employer contributions are also included when calculating total contributions made for the purposes of the annual allowance.

From 6 April 2016, the annual allowance will be reduced for those with incomes exceeding £150,000 by £2 for every £1 over this threshold. The minimum annual allowance will remain at £10,000, therefore even if your income exceeds £210,000 you will still be entitled to £10,000 of allowance. Income for these purposes includes employer contributions and some types of personal contributions.

The amount of annual allowance available for each tax year was previously calculated by reference to the 'pension input period' ending in the relevant tax year. The Summer 2015 Budget announced that these periods would be aligned with the tax year end from 6 April 2016. Transitional rules were also announced for the 2015-16 tax year, which means that individuals can **potentially** benefit from up to £80,000 of annual allowance before 5 April 2016.

Action points

If you do not already have a pension scheme, you may wish to consider setting one up to take advantage of the tax relief which is currently available. If you are already contributing to a pension, you should review the level of your contributions before 5 April 2016 in order to take advantage of unused allowance brought forward and the potential £80,000 annual allowance, if it is applicable to you.

Making Tax Digital

HMRC have recently published six consultation documents on the 'Making Tax Digital' strategy – the biggest shake-up of the personal tax system in 20 years. These documents set out HMRC's plans to move to a fully digital tax system by 2020, with the aim of making the tax system more efficient.

The government first announced the project in the 2015 Budget but has now provided additional details of the proposals for consultation.

The consultation documents

The six consultation documents cover:

- Bringing business tax into the digital age
- Simplifying tax for unincorporated businesses
- The simplified cash basis for unincorporated property businesses
- Voluntary tax payments in advance of liabilities being due
- Tax administration
- Transforming the tax system through better use of information

In summary

HMRC plan to make fundamental changes to the way tax reporting is carried out. Business owners and landlords will be required to keep records digitally and update HMRC more frequently than is currently the case. These reforms will be introduced from April 2018.

By 2020 most businesses and landlords will have to use software or apps to keep their records and report to HMRC on a quarterly basis. Tax returns will be replaced by an End of Year declaration which will need to be filed within 9 months of the end of the period of account.

HMRC also intend to make changes to some of the underlying tax rules for businesses and amend HMRC's compliance and enquiry powers. This will include the introduction of a new regime for late submission penalties, late payment sanctions and proposals to align interest across taxes.

Those taxpayers who are likely to be exempt from the changes include:

- All unincorporated businesses and landlords with an annual income of less than £10,000;
- Charities and Community Amateur Sports Clubs (CASCs) and;
- Those who cannot engage digitally

Reaction

Craig Walker, Senior Tax Manager at Hawsons commented: "The proposals are radical and wide ranging, and clearly significant consultation is required. There are deep concerns within the profession and the business community that HMRC's plans are overambitious and unrealistic, the proposals will place additional burdens and costs on businesses, and the current timetable for implementation is unworkable."

"Although the concessions for businesses with income below £10,000 are welcome, much more still needs to be done by HMRC to address the legitimate concerns of businesses."

More on Making Tax Digital

Over the coming weeks and months, we will provide further details on the new initiative, commenting on the new consultation documents and what they mean to taxpayers and the personal tax system.

Cloud accounting

Cloud accounting is the use of accounting software where your data and software is stored on the cloud rather than your hard drive. It can be accessed remotely from any device that has internet access, much like your internet banking. As your business grows, one of the key questions you will ask yourself is: "how can I prioritise my time?" and rightly so, with not having enough hours in the day is one of the key challenges many small business owners face. This is where Cloud accounting can help your business. Here are just a few ways where our online client accounting software can help your business:

Prioritise your time – online accounting brings new working practices. Bank fees that automate the postings into the software from entries on your electronic bank statement, the emailing of pictures of receipts on to your system and the scanning of supplier invoices all reduce the time in data inputting.

IT Services – The Cloud service providers deal with much of the IT maintenance such as the backing up of your data, installing software updates and this in turn reduces the need for on premise servers.

Flexibility – In today's environment, people are mobile working outside of their office hours and away from their office locations, usually on mobiles or tablets or other devices. It is also essential that you can securely access business software and data as and when needed, wherever in the world that may be.

Moving to the Cloud couldn't be simpler, working on the Cloud will give you the opportunity to reduce the amount of time you spend on tedious and time consuming administrative tasks, allowing you to concentrate on what you do best which is running and growing your business. After all, you started a business to run a business, not to be an accountant or a book-keeper. With Cloud accounting, you can do just that.

Our Cloud Accounting services

We will work with you to find out which Cloud accounting software best suits your needs. We work with a range of the leading traditional and Cloud accounting software providers:

- Xero
- Sage One
- KashFlow
- FreeAgent
- QuickBooks

We will help you move to your new software and make the data transfer as automated as possible. Next, we will provide you with training on your cloud accounting software so you know how to use it efficiently and get the benefits as quickly as possible.

Ongoing Cloud accounting services

Once you are up and running we are available to help at any time answering any questions you may have. With your permission, we can log into the software at the same time as you and even take control of your screen to help you with any questions you may have.

How secure is the Cloud?

Charles Kavazy, Director of IT Services at Hawsons says: "It depends. Of course, that's not a very helpful answer, but much depends on many factors including your attitude to risk, the nature of your data and the strength of the security including the processes carried out by the company hosting your data. Some people argue that storing your data on the Cloud can be more secure than storing it on your desktop or an on-site server. The level of physical and electronic security that Cloud service providers offer may be higher, depending on the risk involved, and the duplicated continuous backup processes of Cloud providers are probably going to be better than most businesses would implement."

Wherever you store your data, there are always security issues, as Charles adds: "Most Cloud computing providers take great measures to ensure your data is safe, including backup power supplies, firewalls, data encryption software and regular, third-party security audits. They can also protect your data against floods and fires by having multiple servers in different locations."

Charles summarises: "The Cloud service providers take great care to protect your data, but ultimately each business needs to consider its attitude to risk, the data being stored and the implications of a security breach. If you decide the benefits of the Cloud outweigh the risks and you are happy to accept the risk, then you need to ensure you choose your Cloud provider carefully and implement robust procedures to mitigate the risk of problems. For example, controlling access rights, regular password changes and training your staff on security risks."

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Sheffield
0114 266 7141

Pegasus House, 463a Glossop Road, Sheffield, S10 2QD

Doncaster
01302 367 262

5 Sidings Court, White Rose Way, Doncaster, DN4 5NU

Northampton
01604 645 600

Jubilee House, 32 Duncan Close, Moulton Park, Northampton, NN3 6WL

HLB International

Your local specialist:

Sheffield

Scott Sanderson
Partner
0114 266 7141
ss@hawsons.co.uk

Doncaster

Martin Wilmott
Partner
01302 367 262
maw@hawsons.co.uk

Northampton

David Owens
Partner
01604 645 600
davidowens@hawsons.com

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