Small Business News

Specialist Small Business Accountants

Newsletter
Winter 2015

www.hawsons.co.uk

Introduction

Welcome to our Winter 2015 small business newsletter.

Although the recent Summer Budget has somewhat slowed down the rapid growth of many UK small businesses, a recent report has found that small businesses are growing at their fastest rate since the economic downturn in 2008. This is both welcome and encouraging news. Since our last small business newsletter the Chancellor, George Osborne, has delivered his latest Autumn Statement. We review the key details and what they mean to smaller business owners across the UK.

In this issue we look at:

- Autumn Statement small business review
- Small business R&D tax relief claims rise again
- Forthcoming PAYE changes
- Is it time to say bye to buy-to-lets?
- Big small company accounting changes ahead

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

INVESTORS IN PEOPLE

Autumn Statement small business review

Last week, on 25 November, the Chancellor delivered his latest Autumn Statement. In a year which has already seen two Budgets - which have both brought big changes to the small business community – including the big dividend shake-up and the introduction of the new National Living Wage - small businesses were perhaps understandably tentative about what this year's Autumn Statement might bring. In this article we summarise the key points arising from the Autumn Statement and focus specifically on what the changes

In summary (general):

- Tax credit cuts scrapped all together
- £12bn in targeted welfare savings to be delivered in full
- NHS to receive £10bn more funding a year in real terms by 2020
- Basic state pension will rise by £3.35 to £119.30 a week
- New 3% surcharge on stamp duty for buy-to-let properties and second homes from April 2016
- Doubling of housing budget to £2bn a year
- Capital funding of transport projects to rise by 50%

In summary (small business specific)

- Extension of small business rate relief scheme for another year
- Small businesses to be 'exempt' from apprenticeships levy
- Small businesses to have digital tax accounts by the end of the decade
- Greater focus on the Northern Powerhouse and Enterprise Zones
- No change in Entrepreneurs' Relief

Autumn Statement small business impact

Scott Sanderson, Partner at Hawsons, commented: "On first look the 2015 Autumn Statement had very little to shout about for small businesses; however, looking more closely, there is scope for optimism following some of the announcements. Overall this was not a bad Autumn Statement for entrepreneurs and small businesses. Welcome announcements include the extension of the small business rate relief, a levy exemption on apprenticeships, commitment to the Northern Powerhouse, expansion of Enterprise Zones and start-up loans. Of those, in particular, extending the small business rate relief scheme for another year (until April 2017) is one announcement that will be welcomed by the small business community."

The Chancellor said that this measure is likely to impact 600,000 small and micro businesses.

George Osborne revealed in his summer Budget that businesses in the UK will start to contribute, from April 2017, towards funding 3m apprentices by 2020. The details of this were initially vague, but the Chancellor has now confirmed that all businesses will get a £15,000 allowance to offset the levy, meaning that 98% of all employers will pay no apprenticeship levy at all.

Scott said: "It is vitally important that the government supports the creation of new skills. The skills gap in the UK is an ongoing issue, particularly in manufacturing, engineering and retail, so apprenticeships is of course a key focus. With the new National Living Wage and the onset of auto enrolment costs, this potential additional cost would have caused further financial pain to many small businesses. Although larger businesses will not be happy, this is good news for the small business community."

"The government's continued commitment to Enterprise Zones and the Northern Powerhouse also brings good news for small businesses. Enterprise Zones give start-ups and small businesses much needed support and tax-saving opportunities, so this is really encouraging. Linking with the Chancellor's aspirations of a Northern Powerhouse, more than a third of all the new zones will be in the North of England. In fact, George Osborne revealed that the North has grown faster than the South so far this year. Although it should be mentioned that this may be slightly misleading due to the substantial regression the North faced on the backdrop of the recession, it shows signs of long-term growth across the whole of the UK."

"The substantial improvements in the UK's transport infrastructure – including a 50% increase in capital funding for transportation projects and a £400m Northern Powerhouse fund – will also likely bring inward investment and business opportunities to small businesses."

Small business R&D tax claims rise again

HMRC has now published its most recent R&D tax relief statistics (2013/14), and the picture remains very positive. The statistics show that companies – both SME and multinational alike – are continuing to claim relief on their R&D activity.

Claims from SMEs rise by 23%

Since the introduction of the relief over 120,000 claims have now been made, amounting to over £11.4bn in tax relief claimed. Those numbers continue to grow. In total there were over 20,000 claims made in 2013/14 alone, with claims from SMEs increasing by 23%.

R&D tax relief sector breakdown may surprise many

An important point to remember when thinking about R&D tax reliefs is that to claim this relief you don't have to work in a lab or wear a white coat. This is one of the common misconceptions surrounding the relief, leading to many companies overlooking projects which may have qualified. It is good to see a continuing rise in the number of R&D claims being made, particularly those from SMEs. However, there are still thousands of companies missing out.

From time to time we often hear people say that R&D tax relief only applies to certain industries, primarily the healthcare industry, or the manufacturing industry. This is not true. We have submitted successful claims for IT & software businesses, food & beverage businesses, as well as the more obvious healthcare, manufacturing and engineering businesses.

As the below table highlights, there are a large number of sectors where certain projects may qualify as R&D, so it is crucial that you speak to an advisor to maximise your tax-saving opportunities. With the government fully supporting innovative businesses across the UK, and with attractive corporation tax incentives now potentially available for many businesses, it has never been more important to consider your claims, whatever sector you operate in. In fact, the corporation tax relief could fund 46% of a company's R&D expenditure.

The table below shows a breakdown of R&D tax relief claims by sector in 2013-14.

Sector	No. of claims	Amount claimed (£m)
Agriculture & Fishing	95	*
Mining & Quarrying	50	25
Manufacturing	5,815	635
Electricity, Gas, Steam & Conditioning	45	5
Water, Sewerage & Waste	120	5
Construction	380	20
Wholesale & Retail Trade	1,820	85
Transport & Storage	110	5
Accommodation & Food	35	*
Information & Communication	4,875	335
Financial & Insurance	240	45
Real Estate	30	0
Professional, Scientific & Technical	3,670	415
Admin & Support Services	985	65
Public Admin, Defence & Social Services	5	10
Education	135	*
Health & Social Work	150	10
Arts, Entertainment & Recreation	105	25
Other Services Activities	295	10
Total	**18,965**	**1,710**

Figures exclude claims where industry sector is not known.

Numbers are rounded to the nearest 5 and amounts are rounded to the nearest £5m.

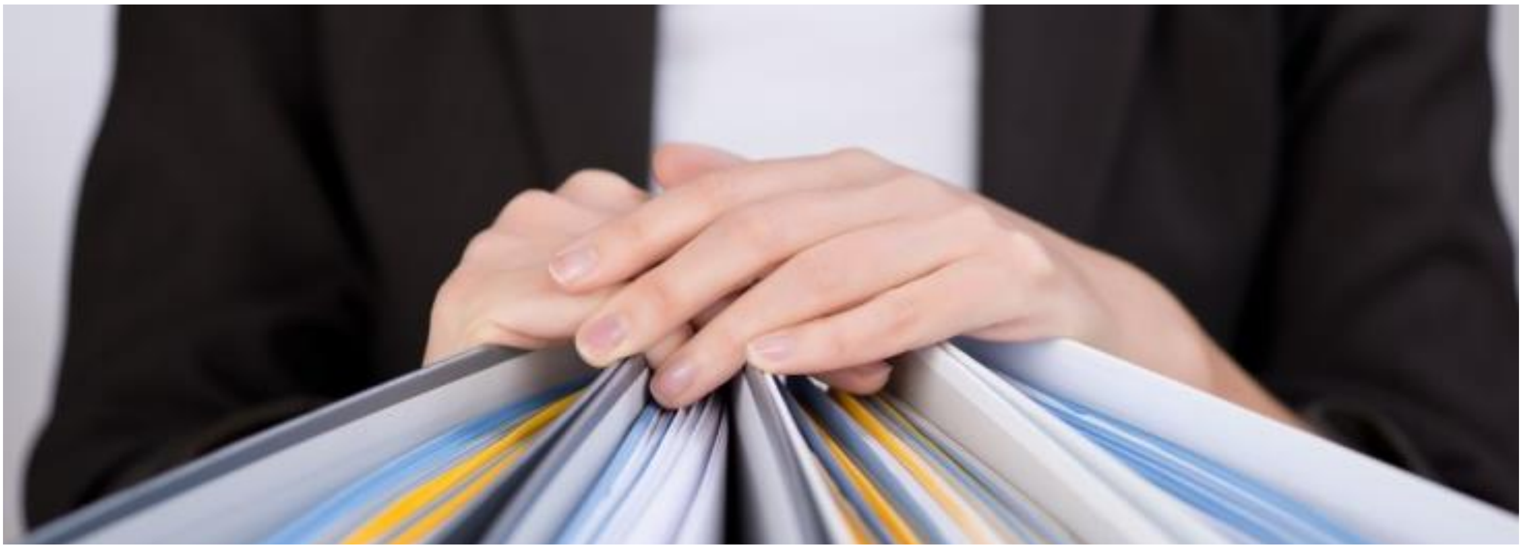
**value is less than 5*

Source: Figures taken from HMRC R&D Tax Credit Statistics Report September 2015

Are you missing out?

Stephen Charles, Tax Partner at Hawsons, said: "What is perhaps surprising for many is the scope of qualifying R&D claims across a large number of industries. However, there is strong evidence that many companies are still missing out, primarily due to overlooking and thus, not claiming, potentially eligible R&D projects. Many expect R&D tax claims in manufacturing, healthcare and IT, but sometimes do not consider its applicability to other, less obvious sectors such as arts, entertainment & recreation, transport & storage and wholesale & retail. The consequence of missing out, particularly for smaller, innovative companies cannot be understated. Whether you're developing a new product, service or process or materially improving an existing one, or want to learn more about this generous tax relief, regardless of your industry, it may be worth speaking with Hawsons today."

Forthcoming PAYE changes



The introduction of the National Living Wage

The government had previously announced the introduction of a new National Living Wage (NLW) for working people aged 25 years and above from April 2016. Initially the NLW is set at £7.20, which is 50p above the current National Minimum Wage (NMW). The NLW is set to rise to over £9 an hour by 2020.

Ahead of the Autumn Statement it has been suggested that this could be brought forward; the fact that it wasn't will no doubt be a relief to many business owners.

Changes in Employment Allowance

The government has also announced that Employment Allowance will rise from £2,000 to £3,000 from April 2016. The Employment Allowance gives businesses a reduction in the employer National Insurance they pay, so this is a welcome announcement. As this increase in Employment Allowance is focussed on businesses and charities that support employment, companies where the director is the sole employee will no longer be able to claim the Employment Allowance. This change in claiming Employment Allowance also comes into force from April 2016.

Forthcoming Scottish rate of income tax

From April 2016 the Scottish Parliament will have responsibility for a Scottish rate of income tax. From this date the Scottish rate will be charged on the non-savings income of Scottish residents. As such, from April next year it is likely that Scottish taxpayers will pay a different rate of income tax to the rate paid by the rest of the UK. The rate of Scottish income tax has not yet been finalised and it is expected that the Scottish Finance Minister will announce the thresholds and rates later this year.

Regardless of where the employer is based, all payrolls must operate the Scottish rates of income tax for Scottish residents. This means that businesses across the rest of the UK could have to apply Scottish rates of income tax in their PAYE.

Abolition of Employers' NI contributions for apprentices

From April 2016 employers of apprentices who are under 25 will no longer be required to pay employer NI contributions on earnings up to the Upper Earnings Limit. This will produce savings for all employers of apprentices. If this applies to you then please let us know.

Running a payroll properly is often a time-consuming and resource-demanding job, requiring awareness of constantly changing HMRC requirements and detailed legislation, as well as meeting strict deadlines. Additionally, with the recent onset of auto enrolment and compulsory workplace pension schemes, the increasing compliance obligation on employers makes now a good time to consider outsourcing your payroll. **If you are considering outsourcing your payroll please visit www.hawsons.co.uk/payroll to find out how we can help and to request a free quote.**

Is it time to say bye to buy-to-lets?

Following the Chancellor's latest Autumn Statement, more changes are on the way for landlords…

The buy-to-let market is thriving, but the government's recent tax changes for landlords, announced in the Summer Budget and last week's Autumn Statement, will significantly increase landlords' tax bills and, in some cases, to a massive extent. This article recaps the Autumn Statement's further big buy-to-let tax changes and what they mean for landlords and investors.

Is this the end of the boom in buy-to-let?

Restrictions on interest relief

This change was announced in July and is one that will hit landlords the hardest. It is a move which will see interest relief gradually restricted to basic-rate tax, to 'level the playing field for homebuyers and investors' (according to the Chancellor).

Landlords will be able to obtain tax relief as follows:

- In 2017-18 the deduction from property income (as is currently allowed) will be restricted to 75% of finance costs, with the remaining 25% being available as a basic rate tax reduction.
- In 2018-19, 50% finance costs deduction and 50% given as a basic rate tax reduction.
- In 2019-20, 25% finance costs deduction and 75% given as a basic rate tax reduction.
- From 2020-21 all financing costs incurred by a landlord will be given as a basic rate tax reduction.

This restriction will mean that buy-to-let landlords will no longer be able to deduct all of their finance costs from their property income. The mechanics of the restricted relief will mean that some taxpayers who are currently only liable at the basic rate will be subject to higher rate tax, and could result in some losing the benefit of their personal allowance.

The impact for landlords with several properties could be huge.

Stamp Duty changes ahead

On top of that big change, the Chancellor has now made life even harder for landlords by increasing stamp duty. On Wednesday, in last week's Autumn Statement, he announced a new 3% surcharge on stamp duty when a person buys an additional residential property that costs more than £40,000.

This 3% will be in addition to current stamp duty rates, which would see any property valued between £125,001 and £250,000 move from stamp duty payable of 2% to stamp duty payable of 5%, for example.

An extra 3% may not sound like a lot, but it will bring about a a substantial increase in stamp duty payable. For instance, a £200,000 buy-to-let will see its stamp duty bill increase from £1,500 to £7,500 when the new rates come into effect.

A landlord looking to buy an additional property valued at £150,000 will pay as much as ten times more stamp duty tax when the new rules come into play.

This new rate will come into force from 1 April 2016, but certain property developers could be exempted from the new restrictions. We await confirmation and further details on any exemptions, with the details of the proposal subject to consultation.

It will also be interesting to see how the government determines what qualifies as a second home and, perhaps more importantly, whether the surcharge applies to those who are unsure how the property will be used following the purchase.

Accelerated capital gains

As well as a 3% surcharge in stamp duty, the Chancellor also announced last week an acceleration of capital gains tax payable on disposals of certain property. From April 2019 individuals selling properties will have to pay capital gains tax within 30 days of the sale rather than, as it currently works, in the January following the tax year of the disposal.

This will not affect gains on properties which are not liable for capital gains tax due to Private Residence Relief. This measure is yet another blow for landlords.

What does this all mean?

We have detailed analysis, including further information on any tax changes – the removal of the wear and tear allowance – on our website at http://www.hawsons.co.uk/autumn-statement-uncertainty-buy-let-landlords-tax-changes/

Small company accounting changes ahead

Over the next year or so the statutory accounts that small companies have to prepare and send to Companies House are changing because of revisions to the Companies Act and some connected changes to UK Accounting Standards. The combined rules are often referred to as UK GAAP – Generally Accepted Accounting Principles. Smaller limited companies (known as 'micro-entities') will often be able to choose between two versions of UK GAAP, one of which is considerably simpler than the other. However, companies which are 'small' but not small enough to be micro-entities will not be able to take advantage of this option.

In this article we describe and explain what the options are for small company accounting and would be very happy to discuss which of these options would be most appropriate for your circumstances.

New UK GAAP for small businesses

For periods beginning on or after 1 January 2016, the contents of small UK companies' published accounts change. The contents of the actual profit and loss account and balance sheet are virtually unchanged but the number of notes to the accounts will generally be reduced, and all the notes, including related party transactions, will be filed at Companies House. Currently a filing option known as abbreviated accounts is available. This involves filing only a balance sheet and some of the notes to the accounts.

Abbreviated accounts are abolished in the new framework. Instead, the accounts prepared for filing will be required to be the same as those prepared for the members. Small companies will continue to be able to choose not to file their profit and loss account and/or directors' report, but the amount of information disclosed on the public record will increase in many cases.

Increased size limits for small companies

Many more companies will qualify for the small company GAAP regime as the small company limits have increased substantially. The size limits to qualify as a small company increase to not more than:

	Small
Turnover	£10.2m
Balance sheet total	£5.1m
Average number of employees	50

A company needs to meet two out of three of the above criteria for two consecutive years to qualify as a small company, unless it is the first year of the company's existence, in which case only that year has to be considered.

New accounting standard

The more significant change is that certain assets and liabilities will have to be revalued each year. The following items are the most common of the assets and liabilities otherwise having to be revalued every year by new UK GAAP:

- Investment properties have to be revalued every year to what they are worth at the balance sheet date. These are properties held for their investment potential rather than being used in the business.
- Forward foreign currency contracts require restatement to their value at the balance sheet date. This value may depend upon changes in exchange rates.
- Loans payable or receivable (for example to or from a director) more than one year after the balance sheet date. If, as is frequently the case, such loans are not using a market rate of interest, their value has to be established at every balance sheet date.

The downsides of these are time, expense and the potential limited value to owner-managers.

The option for micro companies

There is also a new standard called FRS 105 (The Financial Reporting Standard applicable to the micro-entities regime). The standard refers to the option being available from periods beginning 1 January 2016 but it is possible to adopt this new standard immediately, if it is in the company's interest to do so.

Please visit our website www.hawsons.co.uk/small-company-accounting-changes-ahead for more detailed information.

www.hawsons.co.uk

Winter 2015

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

Find out more about how Hawsons can help your small business.

Please call your local office or visit:

www.hawsons.co.uk/business-services

Registered to carry on audit work in the UK and Ireland and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

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

INVESTORS IN PEOPLE

Disclaimer: All information in this publication is of a general nature and may not be applicable to your own specific circumstances. We will be pleased to discuss your specific circumstances or requirements in more detail. If you would like to discuss anything with us, please contact us. Whilst every care has been taken to ensure that all information in this publication is accurate, no liability is accepted for any loss or damage, howsoever arising from the use or non-use of any information on this site.

Register to receive this edition quarterly:

www.hawsons.co.uk/newsletter