



# Small Business News

## Specialist Small Business Accountants

Newsletter

Spring 2016

### Introduction

Welcome to our Spring 2016 small business newsletter.

With continuing technological advancements and regulatory changes, 2016 promises to be an exciting year for small businesses. In we look at the recent Budget and its impact for small business owners as well as the new dividend rules, the benefits of outsourcing payroll, the big changes to employment allowance and a number of different and attractive tax opportunities for small businesses.

### In this issue we look at:

- 2016 Budget small business review
- Tax opportunities for small business owners
- Important reminder: dividend changes from April
- Important changes to Employment Allowance
- Is now a good time to outsource your payroll?
- Changes to tax relief on pensions for high earners

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](mailto:ss@hawsons.co.uk)  
T: 0114 266 7141  
M: 07824379502  
Twitter: @HawsonsSME



[www.hawsons.co.uk](http://www.hawsons.co.uk)



### 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](http://www.hawsons.co.uk/business-services)



# 2016 Budget small business review

On 16 March, the Chancellor delivered his first Budget of 2016. Following on from an Autumn Statement which, on the whole, brought good news for small businesses owners, we now review the latest developments. In this article we summarise the key points arising from the Budget and focus specifically on what the changes may mean for small businesses.

## 2016 Budget small business impact

Scott Sanderson, Partner at Hawsons, commented: “The Chancellor claimed that it was ‘a Budget that backs small businesses’ and, with small business rate relief more than doubling, a freeze on fuel duty and changes to commercial stamp duty rates, the 2016 Budget did bring some real positives for small businesses. Overall, the 2016 Budget was a good Budget for small businesses.”

“Small businesses are at the heart of the UK economy and this was a Budget that backs enterprise and backs small businesses in the UK. Of course, any changes that signal a simplification of the tax system is a welcomed announcement for small business owners, but there were also supportive measures to help small businesses that are struggling financially. The Chancellor has acknowledged the calls from small businesses to expand the business rate relief available to them and this is the single biggest tax cut in the 2016 Budget for the small business sector.”

### Business rate relief for small businesses

The Chancellor announced a progressive approach to business rates, with the business rate relief for small businesses more than doubling from £6,000 to £15,000. This increase to the annual limit will exempt thousands of small businesses, with 250,000 businesses paying less in business rates.

Sage data shows that, prior to the 2016 Budget, more than one in three UK small businesses said that reforming business rates would have the biggest impact in transforming their business. This is a big boost for small businesses and particularly for retailers, who argue that, in the digital age, those who have bigger physical presences (than those with big online presences) are taxed unfairly and uncompetitively.

### Freezing of fuel duty

The fuel duty freeze will be extended for another year, taking it to 6 years at the current rate at the end of 2016/17. This is good news for both drivers and small business owners and will be welcomed across the country. The freezing of fuel duty will particularly those who use vans or who take delivery of goods (e.g. retailers and hospitality firms) where using large amounts of fuels is unavoidable. As an example, the Chancellor announced that this would see a saving of an average of £270 for small business with a van.

### Corporation tax

Corporation tax rates were once again cut by the Chancellor in the 2016 Budget, which will of course bring tax opportunities for small businesses and their owners. The tax rate currently stands at 20% and was proposed to fall to 18% by 2020 (announced in the 2015 Budget), but will now fall to 17%.

### Dividends

One of the big hopes for many entrepreneurs on their small business 2016 Budget wish list would have been a revision to the planned dividend tax increase that is due to come into force from 6 April 2016. The planned dividend changes will put even greater financial pressure on small business owners, with many coining the new rules a tax on success.

Scott added: “There was a glaring exemption for small businesses in the Chancellor’s Budget – dividends. There were no announcements on the forthcoming dividends changes, which will see the proposals go ahead as planned.”

## More information

**Please get in touch with your local office specialist for more information and to book your free initial meeting.**

You can find more information on the 2016 Budget at [www.hawsons.co.uk/guide-2016-budget](http://www.hawsons.co.uk/guide-2016-budget)

# Tax opportunities for small business owners

Recent changes to corporation tax rates, the Annual Investment Allowance and R&D tax reliefs bring big tax opportunities for small business owners, but each have some detailed and complex rulings that you need to be aware of. This article gives a brief overview to each of the three tax changes and what they mean for small business owners.

## Falling corporation tax rates

Corporation tax rates were once again cut by the Chancellor in the 2016 Budget, which will see the main rate fall to 19% in 2017 and 17% in 2020. The corporation tax rate currently stands at 20% and is at its lowest point for over 20 years, falling from a much higher 28% just six years. A falling corporation tax rate brings many opportunities for small business owners and will likely have a knock-on effect on inward investment, staff recruitment, staff retention plans and business confidence.

## Annual Investment Allowance

The Chancellor announced in the Summer 2015 Budget that the Annual Investment Allowance (AIA) will be set permanently at £200,000 from 1 January 2016 – this is still a generous figure. The AIA was increased to £500,000 from 1 April 2014 for companies or 6 April 2014 for unincorporated businesses until 31 December 2015, but it was suggested that it may reduce back to £25,000 after this date.

### Who can claim AIA?

The AIA provides a 100% deduction for the cost of most plant and machinery (not cars) purchased by a business, up to an annual limit and is available to most businesses. Some of the examples of where you can claim the AIA on include lifts and escalators, electrical systems, office equipment, machinery, furniture and vans and lorries.

### Caution

You will need to be very careful of timings in order to maximise your AIA.



## R&D tax relief

The government is fully supporting innovation and R&D tax relief is now a very attractive and widely available relief. Latest figures released by HMRC show that more SMEs are now claiming more R&D tax relief than ever before (increase of 23% on previous figures) – but there are still thousands of projects being overlooked. The government have also recently introduced measures to make it even easier for small businesses to claim R&D tax relief.

### How does R&D tax relief work?

R&D tax relief is available to both small businesses and large companies, with the small business rates being particularly generous. Small businesses obtain 'superdeduction' equal to 130% of expenditure on labour and materials (approx. 46% spend funded) whilst large companies obtain a tax credit of 11% (effective 11% funded).

### Case study

Over the past few years we have worked with many businesses in successful claiming R&D tax relief, amounting to hundreds of thousands of pounds. Below is a short example of a company that we have worked with:

- Sector: engineering
- R&D spend: £400k
- Tax saving: over £250k

What is interesting about this example is that the company was spending the money on R&D anyway – they were just not claiming back on their qualifying projects.

An important point to remember is that to claim this relief, you don't have to work in a lab or wear a white coat. We have submitted successful claims for IT & Software businesses, Food & Beverage businesses, as well as the more obvious Healthcare & Medical, Manufacturing and Engineering businesses. Whether you're developing a new product, service or process or materially improving an existing one, it may be worth speaking with Hawsons today.

**For more details on any of the topics covered please visit our website or contact your local office specialist.**

# Important reminder: dividend changes from April



Small business owners who are additional-rate taxpayers currently have the option of paying themselves dividend income at a 30.6% rate. However, with the new dividend rules, that rate is set to rise to 38.1%.

The main winners of the dividend income changes will be small-scale investors (i.e. savers with under £5,000 of dividends from quoted stocks who have other income); the main losers will be those large-scale investors and business owners who currently mix remuneration between salary and dividends.

## Changes from April 2016

- Abolition of the notional 10% dividend credit
- A tax-free dividend allowance of £5,000 a year
- Dividend income after £5,000 taxed at rates in table below (replacing the current tax credit system)

	2015/16	2016/17
Basic-rate taxpayer	0%	7.5%
Higher-rate taxpayer	25%	32.5%
Additional-rate taxpayer	30.6%	38.1%

## Important notes

- The allowance will not completely exempt £5,000 of dividend from tax – it will still count towards total income in determining which tax band applies to any additional dividends.
- In 2015 the Chancellor introduced a £5,000 savings allowance. This is not available against dividends.
- In 2016 a new personal savings allowance of £1,000 against basic rate and £500 for high rate tax payers was introduced. This is also not available against dividends.

## New dividend rules bring challenges

Much concern has been expressed that operating through a limited company will be less attractive or not attractive anymore. This is not entirely true; the total tax burden is still lower on incorporated businesses. The gap will also widen again when corporation tax rates come down again.

As the new dividend rules bring challenges to many, they also bring tax planning opportunities and it is crucial you carefully consider your options in regards to ISAs, pensions, VCTs and how you structure your overall income. It is also worth considering the share structure of your company as it may be possible to increase tax efficiency.

**For more information please contact your local office specialist.**

# Important changes to Employment Allowance

The National Insurance Contributions (NIC) Employment Allowance was introduced on 6 April 2014. It is an annual allowance which is available to many employers and can be offset against their employer's NIC liability.

From 6 April 2016, the government will increase the NIC Employment Allowance from £2,000 to £3,000 a year.

To ensure that the NIC Employment Allowance is focussed on businesses and charities that support employment, from April 2016, companies where the director is the sole employee will no longer be able to claim the Employment Allowance.

As well as the changes to Employment Allowance on 6 April 2016, the new National Living Wage – the new minimum wage for those aged 25 and over – also comes into force). The new rates will have a big impact on wage bills, particularly for smaller businesses in the care, retail and hospitality sectors.

Announcing the changes to Employment Allowance in the recent 2015 Autumn Statement, the Chancellor said he recognised that the 50% increase in the Employment Allowance was intended to help address this issue of increasing wage bills.

## Good news for small businesses

HM Treasury calculations estimate that up to 90,000 employers will see their employer NICs liability reduced to zero following the changes on 6 April 2016. The changes will help support those businesses in absorbing their additional wage costs.

The increase will mean that businesses will be able to employ four workers full time on the new National Living Wage without paying any NIC.

**For more information please contact your local specialist.**

# Is now a good time to outsource your payroll?

As the tax year draws to a close we ask: what actions could you take to make your life easier from 6 April, taking some of the stress out of running your business and giving you more free time on evenings and weekend? Outsourcing your payroll will not only likely save you time and money, but it's actually probably easier than you think too.

**Once you have decided to switch, let us know and we will take care of the rest. It's as simple as that.**

## An accurate and efficient payroll service

Many small business owners are finding running their payroll an increasingly complex and time-consuming task, particularly as the compliance obligations on employers has never been greater! Whatever size of business you run, now is a good time to consider outsourcing your payroll.

At Hawsons we provide a friendly and personal service that is accurate and will save your company time and money. We have a dedicated team of experienced staff who will liaise with you or your staff to ensure the payroll is completed by the deadline and is compliant with the ever increasing rules and regulations.

You can also be reassured that we will take care of your auto enrolment obligations and ensure your staff are paid accurately and on time.

Our team act for a large number of clients, ranging from small businesses with only 1 or 2 employees up to large business with more than 200 employees. Our aim is to replicate the benefits of an in-house payroll services, ensuring that:

- You will have the rigid benefits of an in-house payroll function i.e. flexible and responsive
- You can tailor our service to meet your specific needs and base our pricing structure accordingly, with no hidden costs!
- You will be provided with an integrated and fully comprehensive service
- You will have a dedicated personal contact that is readily available if issues arise
- We are not a bureau or call centre

**Please get in touch with your local office specialist for more information and to book your free initial meeting.**

You can find more information at [www.hawsons.co.uk/payroll](http://www.hawsons.co.uk/payroll)

# 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 are due to come into force from 6 April 2016 which will reduce the relief available for some individuals with high incomes.

## The changes

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 could be paying at 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.

We would be very happy to assist and discuss how the changes to tax relief on pensions for high earners impact you, so please contact us.



## Spring 2016

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.

### Your local specialist:



#### Sheffield

**Scott Sanderson**  
Partner   
0114 266 7141  
[ss@hawsons.co.uk](mailto:ss@hawsons.co.uk)

#### Doncaster

**Martin Wilmott**  
Partner   
01302 367 262  
[maw@hawsons.co.uk](mailto:maw@hawsons.co.uk)

#### Northampton

**David Owens**  
Partner   
01604 645 600  
[davidowens@hawsons.com](mailto:davidowens@hawsons.com)

#### 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

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

Please call your local office or visit:

[www.hawsons.co.uk/business-services](http://www.hawsons.co.uk/business-services)



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