nicholsons

chartered accountants & business advisers

focus on...

September 2016

Welcome to Focus On... our monthly business bulletin looking at issues relevant to particular sectors and topics of interest.

If you would like to discuss any aspect of our services, please contact Richard Grayson, Director at Nicholsons, email richard.grayson@nicholsonsca.co.uk or phone 01522 815100.

Businesses brush off Brexit fallout

Almost half of Britain's business owners do not think Brexit will have an impact on their company, according to a new study from delivery service CitySprint.

Surprisingly a fifth of those questioned also said they wanted the government to immediately trigger Article 50 of the Lisbon Treaty, which will officially start Britain's exit from the EU.

Despite the pound falling to a 30-year low only 14 per cent of those surveyed said they were concerned that leaving the EU will significantly affect them.

When it came to the future of their business, 68 per cent of respondents stated that they feel either as confident, or more confident, about their company than they did 12 months ago.

However, almost a third admitted they are more uncertain about the future, reporting that they did not know how their strategy for growth would be impacted.

This research is reflected in the latest UK Jobs Report which shows that businesses are getting on with business as usual with around 72 per cent of business owners surveyed saying they intended to maintain or increase their investment in people regardless of Brexit.

Patrick Gallagher, Chief Executive of CitySprint, said: "It's fantastic to see that the UK's SMEs remain upbeat and ready to tackle whatever lies ahead.

"We know that they are resilient, having weathered the economic ups and downs over recent years, but business leaders must not become blasé about the future. As a business leader myself, I have been working closely with my leadership team to prepare for every likely eventuality."

"One of the most powerful ways to build lasting security is through collaborating with other businesses of a similar size. Our research finds that those who successfully buddy-up and partner with others tend to be more optimistic about the future and in a better position financially. SMEs should forge collaborative relationships to help safeguard their Brexit bounce back."

However, in London the story is different, with many companies fearing the impact of Brexit. More than a quarter of London's small business leaders think the Brexit vote will significantly disrupt their business, while more than half feel less confident about the future than they did a year ago.

Almost half of the London SMEs questioned said they are planning to review arrangements with their partners and suppliers as a way to cut costs, compared with a national average of 30 per cent.

Small businesses face new punitive penalty regime

New rules introduced as part of the government's Making Tax Digital proposals could see fines for late tax payments triple.

Currently small businesses face a fine worth five per cent of their outstanding tax bill if they pay late. This is charged at 30 days, six months and then again at 12 months, slowly accumulating at a slow rate if the tax remains unpaid.

However, buried within the Making Tax Digital consultation papers is a new penalty system that will see HM Revenue & Customs introduce a sliding scale that could see the initial penalty charge quickly increase to 15 per cent – a 200 per cent rise when compared to the current fine regime.

The new fines would affect failure to pay income tax, national insurance, corporation tax and VAT. The document makes it clear that the 15 per cent figure is purely 'indicative' and may not in the end be the level of the final fine.

As part of the shake-up of penalties, the rules for late filing of tax returns and information will also change to reflect the changing nature of reporting tax on a quarterly basis.

At the moment businesses receive an automatic flat-rate fine of £100 for missing the deadline, even if this is just by a day. This is followed by additional fines the later the tax return is submitted.

The new proposal is for a 'penalty point' scheme where only repeat offenders receive a fine. Under the plans, the points will be 'reset to zero' only after two years in which all information has been submitted on time.

Anita Monteith, a tax policy adviser at the Institute for Chartered Accountants in England and Wales, said the new system, which comes into force in 2019, would amount to treating small businesses as a 'cash cow'.

She said: "Not only are the record keeping obligations going to be much more onerous but making mistakes will become much more expensive. It is a draconian measure and you will end up with many more people being punished."

Property Focus

'Liquidity pinch' causes commercial real estate market hiatus

The UK commercial property real estate market is currently static in the wake of the EU Referendum and the Bank of England's recent base rate reduction, as investors take a step back to re-evaluate their positions.

Most British commercial property owners and investors are keeping a close watch for developments that might indicate what their next move should be – but few are making acquisitions.

The chief executive of UK Commercial Property Trust (UK CPT), Will Fulton, has noted that a post-Brexit vote 'liquidity pinch' is currently affecting the market, with commercial investors revaluing their assets and contemplating how best to make them work to deliver returns.

Mr. Fulton also attributed the recent fall in UK commercial real estate value to the destabilising effect of the UK's decision to leave the EU, and reported that UK CPT had recently chosen to sell two properties in the South East to generate income from the capital release, rather than relying on capital value uplifts that seemed unlikely to arrive any time soon.

UK CPT recorded an asset value drop of 0.2 per cent per share in the six months leading to the EU Referendum against the previous six months' share prices. This setback was partly due to UK CPT's repayment arrangements exceeding current interest rates, but many UK commercial property investors will now find themselves in a similar situation, and will be taking stock of where their portfolios – and shareholders – stand.

While UK commercial real estate investors are likely to be ultra-cautious before committing themselves to asset sales or purchases, overseas buyers are well placed to take advantage of the weak pound to buy UK commercial property at below-par prices. The current low lending rate and depressed property values might help their UK counterparts to do the same – but it is too early to predict post-Brexit vote market movements.

However, the commercial property occupational market remains strong, based on UK CPT's post-referendum leasing activity. Rent returns performed consistently after June's Brexit vote, mainly due to the ongoing lack of investment opportunities in the flatlining housing market.

The commercial real estate market has changed since the Brexit vote, but the economic earthquake has not been as violent as predictions indicated. UK investors are taking a (deep) breath as the aftershocks subside, and waiting to see what shape the market will take – and how they can maximise their benefits when it is more settled.

Reminder: Flat-rate expense agreements

Workers in a number of different sectors are often obliged to spend small amounts each year maintaining or replacing tools and special clothing, which are deemed necessary for them to carry out their employment duties.

In order to provide support to these workers, HM Revenue & Customs (HMRC) allows a flat-rate expense to cover these costs. While this has been the case for a long time, many people and businesses still remain unaware of this opportunity.

It would be cumbersome to deal with individual deduction computations for each employee and time consuming for taxpayers and for HMRC, so flat-rate deductions have been negotiated on a national basis with trade unions.

These flat-rate deductions apply to the employees in specified occupations.

However, flat-rate deductions are only permitted where an expense is necessarily incurred by the employee and this must be demonstrable to HMRC if requested.

Flat-rate expense deductions are provided for under Section 367 ITEPA 2003, the terms of which are that:

- the flat-rate amount is only deductible where the expense falls on the employee
- the employer reimburses the expense, or would do so on request, no deduction is permitted
- the employer reimburses, or would reimburse, part of the expense, the deduction is reduced accordingly.

No employee can be disadvantaged by setting a flat-rate amount because Section 330(2) ITEPA 2003 allows the actual expense incurred to be deducted for any year instead of the fixed rate amount and an employee does not have to be a member of the relevant trade union for the deduction to be given.

The deductions are intended to cover the average expenditure that would be deductible under Section 336 ITEPA 2003. But there is nothing to prevent an employee asking for a deduction in any year for the actual expense he or she has incurred.

Revenue sets out first plans for Making Tax Digital

In August HM Revenue & Customs (HMRC) issued the first wave of consultation documents on its Making Tax Digital (MTD) initiative.

This first wave of consultation documents set out the Revenue's plans for the implementation of MTD for the smallest businesses and, as expected, a large number of small businesses will need to report on a quarterly basis using 'designated software packages.'

Only the very smallest businesses – those with an annual turnover of less than £10,000 – will be exempt from these requirements.

All other businesses will need to use designated software packages, which HMRC says will include free-to-use solutions, to submit details to the Revenue every three months. Details of the packages that will be available have not yet been made clear.

At the end of the tax year, businesses will need to make any necessary adjustments to the returns they have made during the year.

HMRC has said that it intends to fully implement MTD by 2020, but the Revenue will start to roll out the changes to a small number of businesses in 2018, while some test trials may be conducted as early as 2017. Consultations on the implementation of the scheme for larger businesses are set to be published in the autumn.

More than one in five insolvencies the result of late payments

A new report from insolvency trade body R3 has revealed the damage done to small firms by customers making late payments for goods and services.

According to their most recent survey of the insolvency profession, late payment was the primary cause in 23 per cent of insolvencies during the last 12 months, while the closure of a supplier or customer was the major factor in 20 per cent of cases.

According to the Insolvency Service there were 15,958 corporate insolvencies in the past 12 months, meaning that a total of 3,670 businesses shut their door as the result of customers paying late.

A separate study from mobile payments firm, Paym, has shown that Britain's 3.3 million sole traders lose around £8.1 billion a year from late, delayed or underpaid payments – averaging £2,472 per business.

Andrew Tate, R3's President, said: "A business can have a great product and great staff, but if it doesn't get paid for what it sells, or if it is over-reliant on one supplier or customer, things can go wrong very quickly."

The problem of late payments has worsened since 2014, when a previous study found that late payment was the primary or major factor in 20 per cent of corporate insolvencies – indicating a three per cent increase during the last two years.

In May last year, former Business Secretary Sajid Javid, announced government plans for a small business commissioner to tackle late payments, but the future of these plans are now uncertain following his departure from the department.

Tate said: "Unfortunately, government promises and other initiatives don't appear to have yet made any real impact.

"The failure of one company can have a serious knock-on effect. Both late payment and the domino effect have been identified as leading causes of insolvency by the profession, so more needs to be done."

Revenue gets tough on salary sacrifice schemes

The previous Chancellor announced at the Budget in March 2016 that the government would consider restricting the range of Benefits in Kind (BiKs) that are exempt from Income Tax and National Insurance.

In August, HM Revenue & Customs (HMRC) launched its formal consultation on the changes – which proposes that almost all BiKs should be subject to Income Tax and National Insurance.

The only BiKs that HMRC is not consulting on are employer pension contributions; employer-provided pensions advice; employer-supported childcare and nurseries; and bicycles and cycle safety equipment. All other BiKs would be subject to Income Tax and National Insurance.

The document states: "Many BiKs are offered in addition to salary, but HMRC has seen a growth in salary sacrifice arrangements in recent years.

"These are agreements between an employer and employee to change the terms of an employment contract and reduce the employee's entitlement to cash pay in exchange for some form of non-cash BiK.

"The effect of this, depending on the BiK, is often to reduce the amount of income tax, employee and employer NICs due on the employee's remuneration."

HMRC suggests that this creates unequal conditions for employers and employees that use salary sacrifice BiKs and those that do not.

Changes to non-dom rules in the pipeline

As part of a raft of recently launched consultations, the government has unveiled its latest plans for the changes to non-dom status announced by the previous Chancellor in his 2015 Budget.

Under the plans, non-doms who are deemed to be long-term residents will be required to pay UK tax on their worldwide income. The changes are designed to prevent people living in the UK with non-dom status permanently.

Instead, anyone who has resided in the UK for at least 15 of the last 20 years will be considered to be UK domiciled for tax purposes.

One of the key implications of the policy relates to Inheritance Tax (IHT). Current rules mean that UK domiciles that leave the UK cease to be domiciled for IHT purposes if they have not lived in the UK for three years prior to their death.

Under the new rules, a permanent resident non-dom who had lived in the UK for 15 years until five years prior to their death would remain UK domiciled for IHT purposes.

To address this, the government proposes to treat people as domiciled in the UK for six years after they have left the UK or on the date they become domiciled in another jurisdiction, depending on which is later.

t: 01522 815100
f: 01522 815101

newland house
the point
weaver road
lincoln ln6 3qn

info@nicholsonsca.co.uk
www.nicholsonsca.co.uk