

Newsletter

New finance service

In 2015, of the 324,000 small and medium sized businesses seeking a loan or an overdraft, 26% were initially declined by their bank. Historically the majority of businesses seeking finance only ask one lender. If they are rejected for finance many give up on investment rather than seeking alternative options.

In November 2016, the government launched a scheme for small businesses which have difficulty in obtaining finance from the larger banks in the UK. The scheme provides the business with details of alternative finance providers.

Under the scheme, the government requires nine of the UK's biggest banks to pass on the details of small businesses which have been rejected for finance to three finance platforms - Funding Xchange, Business Finance Compared and Funding Options. However, businesses must give permission for their details to be shared.

The finance platforms will share the information on the consenting business with alternative finance providers in order to 'facilitate a conversation' between the small business and any finance provider who expresses an interest in them.

The Federation of Small Businesses helped to push for this facility and we agree with the hope of the Federation that it will bring more competition and choice in the finance market.

Bulley Davey raises over £5,500 for charities

The Bulley Davey teams have been busy this year raising £5,600 for a number of charities through dress-down days, a sponsored silence, coffee mornings and half marathons.

Over £2,600 was raised for the firm's chosen charity of the year - Sue Ryder, Thorpe Hall. This was raised via dress-down days, a colleague selling eggs, a tuck shop in the company's Spalding office, and Director Mike Gregson taking part in last year's Great Eastern Run. The funds were then matched by company directors.



As well as this the teams raised £1,236 during their last Macmillan coffee mornings which ran across the offices with a special mention to the Wisbech team who raised a staggering amount for the charity. We also formed the largest team (twenty people) at the NSPCC's Rutland Water cycle challenge, raising £694.

Finally Julie Culverhouse at the Peterborough office raised £931 for Children in Need by completing a sponsored silence; and a company-wide Christmas Jumper Day raised £75 for Save the Children.

Director, Mike Gregson presenting the cheque to Thorpe Hall's Liz Pugsley

Recent achievements

We at Bulley Davey take pride in our professional development program which is structured to give trainees a solid grounding in their chosen profession, and as a result are delighted to announce a recent promotion and examination successes.

Firstly we congratulate Josh Rowbottom, of the firm's Spalding office, who has been appointed to the position of Manager. Our congratulations also go to John Grant and Sam Fox, who work at Bulley Davey's Peterborough and Oundle offices, on successfully completing all of the exams to achieve the ACCA professional qualification. Finally to Rebecca Coles (Stamford) and Gina Stevenson and Nicole Belliveau (Oundle) on the completion of their AAT qualification.

Some good news for companies

There was some welcome news from the Autumn Statement and Spring Budget for small and medium sized companies regarding the tax relief available if a company makes a loss.

Historically, corporation tax loss reliefs have mirrored the principles upon which income tax loss reliefs have been based – if a loss is incurred in a trading business, those losses can be offset against other types of income arising in the same year as the loss, and may be carried back against income of the previous year. But if a loss is not relieved at that point, the use of a carried forward loss is generally restricted to being used against future profits from the same trade only.

Changes are proposed which will mean that losses arising on or after 1 April 2017, when carried forward, will be useable against profits from other income streams or other companies within a group. This will apply to most types of losses but not to capital losses. The removal of the restrictions on the use of carried forward losses is very welcome. The existing rules can result in losses not being used, particularly where a company closes down a loss making trade.

There are some elements of the change which may be unwelcome for large companies. From 1 April 2017, companies will only be able to use losses carried forward against up to 50% of their profits above £5 million. For groups, the £5 million allowance will apply to the group. It should be noted that this restriction applies to losses carried forward arising at any time. However over 99% of companies will be unaffected by these restrictions due to the £5 million allowance.

The other good news for all companies is that the corporation tax rate will fall from 20% to 19% for the Financial Year beginning 1 April 2017, and will reduce again to 17% for the Financial Year beginning 1 April 2020.



Don't ERr in your claim

Entrepreneurs' Relief (ER) has been with us for many years and provides a valuable relief – only a 10% rate of capital gains tax on lifetime gains of up to £10 million. However, as with everything in the world of tax, there are always niceties to be observed in order to ensure that you qualify for ER.

HMRC have been criticised by Parliament for not checking enough ER claims and it appears that HMRC are now examining claims more closely. The main area which HMRC seem to be focussing on is ER claims on share disposals. Briefly, ER will apply to gains on disposals of shares in a trading company (or the holding company of a trading group) provided that the individual making the disposal:

- has been an officer or employee of the company, or of a company in the same group of companies, and
- owns at least 5% of the ordinary share capital of the company and that holding enables the individual to exercise at least 5% of the voting rights in that company.

These two conditions must be satisfied throughout the year leading up to the disposal of the shares.

Two recent Tax Tribunal cases illustrate the dangers of failing to meet these criteria.

In the first, the company concerned was formed in 1995 and the taxpayer was one of the founding shareholders and directors. In 2009 it was agreed that the company would purchase the majority of the taxpayer's shares. Provided certain conditions are satisfied such a transaction will be treated as equivalent to a sale of the shares by the shareholder and thus be treated as a capital gain.

It was also agreed that the taxpayer's employment would be terminated and that he would resign as a director. In May 2009 a general meeting approved the share buy-back. However, all the documents suggested that the employment had terminated as at

February 2009. After opening an enquiry HMRC concluded that the taxpayer was not, throughout the period of one year ending with the disposal of his shareholding, either an officer or employee of the company and this was upheld by the Tribunal.

In the second case, two couples owned a company equally. The couple concerned owned 33% of the shares, with the balance being owned by the second couple, so at this stage they clearly met the 5% test. However, the problem arose when a loan of £30,000 by the other shareholders was converted into 30,000 new shares.

HMRC argued that the taxpayers had not, throughout the period of one year ending with the date of the share sale, held at least 5% of the ordinary share capital of the company. This was because during part of that one year period, the ordinary share capital had included the 30,000 new shares, so that each of the taxpayers had held only 33 of 30,033 £1 shares - far less than the 5% of the ordinary share capital required by the ER legislation.

The Tribunal was persuaded that the new shares were not 'ordinary share capital' and so the taxpayers were not caught by the 5% rule. However, HMRC do not agree and have appealed the case to a higher court.

Of course, if either of the above problems are identified pre-sale, a further 'clean' 12-month period can be completed but, in reality, this may be easier said than done. ER is important to many but if you are unsure as to your current position or are contemplating a disposal in the near future, please do get in touch so that we can check you qualify.

Making Tax Digital- join the tax revolution

'Be careful whose advice you buy, but, be patient with those who supply it.'

These immortal words from Baz Lurhmann's famous song Everybody's Free (To Wear Sunscreen) are great and apt words for the world of accountancy.

As Chartered Certified Accountants our job is to give advice to our clients built upon a trusting relationship. It was also a relationship built on patience as much of our time was dedicated to the many processes involved with collating, analysing, reconciling and reporting on our clients' accounts.

That was an unavoidable reality until recently. Cloud technology is revolutionising accountancy and government changes, with the introduction of Making Tax Digital set to come into effect, this will cement its importance for all businesses, individuals and accountants.

Mitchell Burden, Director at Bulley Davey, explains why cloud accounting can revolutionise your business:

"Being an accountant comes with a certain stereotype – an out-of-date technophobe who deals in numbers and processes.

"This couldn't be further from the truth. Cloud accounting software allows you and your accountant to access and analyse your accounts in real-time, at any time, from any online device and securely.

"What does that mean for your average business owner? It means that the processes you and your accountant have to go through

are drastically reduced: no more backing up your accounts, mailing them to your accountant; no more software compatibility issues and more.

"Instead of trawling through the invoices and cheque books, reconciling these with your bank statements, producing reports and then discussing them with you several weeks later, we can instantly review the accounts and advise you on how best to develop your business, plan for tax, identify better ways to manage and grow your wealth – it is in these areas that your local qualified accountant remains really valuable.

"Using a system such as Xero, which Bulley Davey has been a partner of since 2013, also allows you to link your account directly to your company's bank transactions. This means that any payment made using online banking or using your company debit or credit card can be automated into your cloud accounting system – rules can be applied to automatically deal with regular transactions.

"Ultimately, it makes the process much quicker and more accurate. The time saved could then be used more effectively to help your business become more efficient and profitable.

"The government has announced that, starting with Income Tax, the tax system will move entirely online.

"So why not get ahead of the game? Starting this process now means that when the switch over happens you'll be ready and it could help save you time and money.

"We have a number of cloud accounting packages that will help get your business up and running. So take a step to the future and let your business reap the benefits."

VAT Flat Rate Scheme changes

The VAT Flat Rate Scheme (FRS) is designed to simplify the calculation of VAT due for small businesses. VAT is calculated by applying a predetermined flat rate percentage to the business turnover. The flat rate is lower than the 20% standard rate of VAT but businesses can't reclaim VAT on purchases except for certain capital assets over £2,000. The flat rates are determined according to the trade sector of the business and currently range from 4% to 14.5%.

As well as simplifying the calculation, the FRS may also save the business money, particularly if the business supplies services rather than goods. This is because businesses charge their customers VAT at 20% on the services they supply but only pay over VAT at the appropriate flat rate. If there are limited amounts of purchases made by the business, there is a relatively small loss of VAT reclaims on purchases and therefore an overall gain in using the FRS.

The government considers that some businesses with 'limited costs' are obtaining too much advantage in using FRS as, although they correctly use the flat rate appropriate to their trade sector, they have significantly lower costs than most small businesses in that sector. So a new flat rate of 16.5% for certain businesses with limited costs will be introduced from 1 April 2017.

The government estimates that of the 411,000 businesses using the FRS, 123,000 have limited costs and will be affected by these changes.

A 'limited cost trader' is defined as one that spends less than 2% of its VAT inclusive turnover on goods in an accounting period. A business is also defined as a limited cost trader if its expenditure on goods is greater than 2% of its VAT inclusive turnover but less than £1,000 a year. There will be exclusions from the calculation to prevent attempts to inflate costs above 2%. So some businesses will need to perform

calculations to determine whether the trade sector rate or the 16.5% rate applies.

The additional tax cost may result in some businesses choosing to: cease to operate the FRS, or

opt to deregister from VAT altogether where they are under the VAT threshold.

Please contact us if you are currently using the FRS and consider the new rate may apply to you. Also please contact us if you are not currently in the FRS and your VAT turnover is expected to be less than £150,000 (excluding VAT) in the next 12 months. You may find the FRS is of benefit to you.



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State Pension entitlements – check now

The state pension is clearly a worthwhile thing to have, particularly for the self-employed who will receive a pension through the new 'flat rate' pension. However, there have been numerous changes to the qualification criteria over recent years and now may be a good time to check your entitlement.

One thing which is worth bearing in mind is that it is the individual's obligation to keep track of their own entitlement and ensure that it is correct, although most people do not appreciate that. Keeping track of this over a working life is difficult but rectifying problems with the state pension at the point of retirement can be even more difficult, so a quick check of your position once every four or five years is time well spent.

Are you or have you been self-employed?

A recent case lays out some of the historic problems with the state pension. The taxpayer was both employed and self-employed between 1965 and 2013 when he retired. He was dissatisfied with his state pension on retirement and queried his NIC record. As a result he was sent a full breakdown of the NIC paid during his career. He queried a number of matters on that breakdown, including the periods of nil payment in 1993/94 to 1996/97. The taxpayer appealed his NIC record from 1965 to 2013, on various grounds including:

- it was the obligation of HMRC to send him statements showing NIC due

- he was submitting income tax returns for the same period and the Inland Revenue and National Insurance Contributions Agency must have shared the information.

The Tribunal, in summary, held that the onus was on the taxpayer to have sorted things out during his working life and that he had limited ability to do anything at the point of retirement.

Potential Child Benefit trap

Child Benefit can pay a parent £20.70 a week for the first child and £13.70 a week for each additional child. However, if a person's (or partner's) income exceeds £60,000, then all of the Child Benefit will need to be repaid through an increase in tax liabilities of the higher earner. To avoid this, affected persons can elect not to receive the Child Benefit in the first place. However this may mean for some 'stay at home' parents that they miss out on accruing entitlement to state pension. The best advice therefore is to fill in the Child Benefit form (it is available as an online form – search 'child benefit form' on the internet). The government also recommends completing the form but the detail is rather hidden in the eight pages of notes which are available with the online form!

The ability to check your position has improved markedly with the advent of the internet and your state pension can initially be checked at www.gov.uk/check-state-pension

So don't delay – get a pension forecast and if you believe it is incorrect please get in touch with us and we can consider your options.

