OPASS BILLINGS
WILSON & HONEY LLP
NUMERIC HOUSE, 98 STATION ROAD, SIDCUP, KENT DA15 7BY
TELEPHONE 020-8300 2307 FACSIMILE 020-8300 4239
EMAIL opass@obwh.com
WEBSITE www.obwh.com

Business Matters

The simple life? The new cash basis for small businesses

April 2013 saw the introduction of a new cash basis for the purposes of calculating tax for small unincorporated businesses.

By simplifying the calculation of taxable income, the objective is to give small businesses greater certainty over the preparation of taxable income figures for their self assessment tax return and to clarify and simplify self assessment of business income. However, the measures will not be suitable for all small businesses, and certain businesses are excluded from the scheme.

Key aspects of the cash basis

The new measures allow eligible businesses to calculate taxable income figures on a simpler cash basis, if this suits the business. Such businesses will not have to compute figures of debtors, creditors and stock, or distinguish between 'capital' and 'revenue' expenditure, and they will not have to compute capital allowances to arrive at a taxable income figure.

The cash basis is available for businesses whose receipts for the year are less than the VAT registration threshold (£79,000 for 2013/14) or twice that (£158,000) for recipients of Universal Credit. However, businesses must leave the cash basis after their receipts exceed twice the amount of the VAT registration threshold.

The system works on a cash flow basis. For income, it is what the business receives, when it is received; for outgoings, it is what the business pays, when it pays it. Receipts include all amounts received in connection with the business, including those from the disposal of non-durable assets.

Allowable payments are expenses paid wholly and exclusively for the purposes of the trade, including non-durable assets. Interest payments are also allowed up to a limit of £500.

Business losses may be carried forward to set against the profits of future years, but not carried back or offset 'sideways' against other sources of income.

Simplified expenses

All unincorporated businesses may choose to use flat rate expenses for particular items of business expenditure.

Fixed allowances for business mileage are an option for the use of cars or motorcycles by businesses using the cash basis. This provides an alternative to calculating deductions for actual expenditure on purchasing, maintaining and running a motor vehicle or motorcycle, apportioned between business and private use. The car rate may also be used for goods vehicles, such as vans, in some cases.

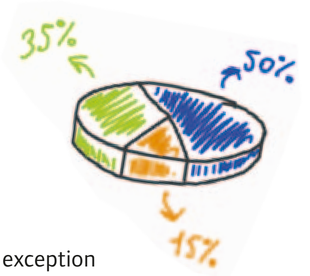
A flat rate can be used to calculate expenses relating to business use of the home, and a three tier banded rate is used to calculate the adjustment for private use of business premises. Both act as an alternative to deductions for actual amounts, apportioned between business and private use.

Businesses that do not choose to use the cash basis will have the option to use any or all of the simplified expenses as they wish.

Despite the stated aim of simplifying the system, cash accounting remains a complex area, and care should be taken when considering the pros and cons. We can advise you on the most appropriate system for your business – please contact us for further assistance.

Inside this Issue...

Thinking of becoming self-employed?



Recent statistics suggest that the number of self-employed workers in the UK has risen by almost 10% since the start of the recession. However, before becoming self-employed, there are various issues that you need to consider from a tax perspective.

Here we take a look at some of the tax considerations that apply to someone who becomes self-employed. Different considerations may apply where a person sets up a business as a partnership or a limited company, so please speak to us for advice.

Registering for self assessment

Registering for self assessment may not be very high on your list of priorities in the early days of starting a business. Yet failure to notify HMRC of your new employment status may attract a penalty if tax or national insurance contributions (NICs) are unpaid as a result.

If you are already registered for self assessment because you needed to complete a self assessment tax return for other purposes, you do not need to register again. However, you will need to complete the self-employed pages when you compile your tax return.

> “Failure to notify HMRC of your new employment status may attract a penalty”

National insurance contributions

A person who is self-employed must pay Class 2 and Class 4 NICs. Class 2 contributions are flat rate contributions payable at £2.70 per week for 2013/14.

A person is automatically registered for Class 2 contributions when registering as self-employed for self assessment purposes. A person who is already registered for self assessment can register for Class 2 national insurance by calling the HMRC helpline. Self-employed individuals with earnings under £5,725 a year (2013/14) are exempt from paying Class 2 NICs.

Those affected must claim the small earnings exception on form CF10. Paying Class 2 NICs has the advantage of protecting benefit entitlements.

Class 4 NICs are payable with income tax on profits, via the self assessment system. Class 4 national insurance is levied at a rate of 9% on profits between £7,755 and £41,450, and 2% on profits over that amount.

Value Added Tax (VAT)

A person must register for VAT once their turnover in any 12 month period exceeds the VAT registration threshold, which is set at £79,000 from 1 April 2013.

You may wish to register for VAT voluntarily if your turnover is below the VAT registration threshold. This will allow you to recover any input VAT suffered, which can be beneficial, particularly if the VAT incurred exceeds that charged. We can help you to make the right decision and complete the registration process.

Pay As You Earn (PAYE)

If you take on people to work for you, you will need to register as an employer with HMRC.

As an employer you are required to comply with PAYE and NIC regulations, deducting tax and NICs, adding your own employer NICs and paying the total to HMRC, net of certain adjustments. Under the new Real Time Information system, employers must send pay and deduction details to HMRC *on or before the time* of making a payment to an employee. If you choose to employ someone, you will need RTI-compliant software, although HMRC's free Basic PAYE Tools package can be used for businesses with up to nine employees.

Under the Regional Employer NICs 'holiday', subject to certain conditions new businesses that start up before 5 September 2013 may qualify for a deduction of up to £5,000 on the employer NICs that would normally be due, for each of the first ten employees they take on.

Keeping records

As a self-employed business owner, you will need to keep sufficient records to allow you to comply with your tax obligations. We can help – please contact us for information and advice.

Filing a tax return and paying tax

If you are self-employed you will need to file your self assessment tax return, complete with the self-employed supplementary pages, and pay any tax due. This should be completed by 31 January after the end of the tax year to which it relates for online returns, or by 31 October for paper returns. You may also need to make payments on account for the current year based on last year's tax bill.

If you are thinking of becoming self-employed, we can deal with your tax affairs on your behalf. From registering for self assessment and completing your tax return, to assistance with record-keeping and payroll, we can help to get your business off to the best possible start.

2013 Budget highlights

George Osborne's 2013 Budget contained a number of important measures affecting both businesses and individuals. Here we look at some of the highlights from the Chancellor's latest Statement.

Business measures

Corporation tax

The Budget confirmed plans to reduce the main rate of corporation tax to 21% for the financial year commencing 1 April 2014. In addition, the Chancellor revealed that from 1 April 2015 the main rate will be further reduced and amalgamated with the small profits rate, giving a new unified rate of 20%.

Employment Allowance

With effect from April 2014 every business and charity will be entitled to a £2,000 Employment Allowance. Employers will need to confirm their eligibility through their regular payroll process. This will ensure that up to £2,000 will be deducted from their employers' NICs liability over the course of the year's PAYE payments.

Seed Enterprise Investment Scheme (SEIS)

The Budget also announced an extension of the capital gains tax (CGT) exemption available under the SEIS. Any investors making capital gains in 2013/14 will receive a 50% CGT relief when they re-invest those gains into SEIS qualifying companies in either 2013/14 or 2014/15 (subject to an investment limit of £100,000).

There will also be a change to the legislation so that some eligible companies will not inadvertently be disqualified from taking advantage of the SEIS regime, by virtue of having been established by a corporate formation agent. This has effect in relation to shares issued on or after 6 April 2013.

Personal measures

Personal allowances for 2014/15

The 2013 Budget confirmed widespread speculation regarding an additional increase in the income tax personal allowance. For 2014/15, the personal allowance for those born after 5 April 1948 will rise to reach the Coalition's target of £10,000, a year earlier than originally planned, and the basic rate limit will be reduced to £31,865.

New tax-free childcare scheme

The Chancellor also confirmed the introduction of a new childcare scheme to support working families with their childcare costs. For childcare costs of up to £6,000 per year per child, support of 20% will be available worth up to £1,200 per child. From the first year of operation, all children under five will be eligible and the scheme will build up over time to include children under 12.

The scheme will provide support for families where all parents are in work and not receiving support through the Childcare Element of Working Tax Credits and where each is earning less than £150,000 a year. The new scheme will be phased in from Autumn 2015 as the current system of Employer Supported Childcare is phased out.

Help to Buy scheme

One of the headline measures in the 2013 Budget was the 'Help to Buy' scheme, which will see equity loans of up to 20% offered to buyers of newly built homes worth up to £600,000. This expanded version of the First Buy scheme is available from 1 April and will provide £3.5bn of additional investment over three years.

A new mortgage guarantee will also be available under the scheme, and will support £130bn of mortgages for both new and existing homes, starting from January 2014.

To discuss how the Budget measures may affect your business and personal financial planning, please contact us.

Going green…

and making savings for your business

Small businesses are often deterred from making changes to become more environmentally friendly because of the perceived costs involved. However, implementing relatively small changes to your business processes can often result in a significant increase in energy efficiency, benefiting both the environment and the bottom line.

Consider these top energy-saving tips:

✔ **Check your current energy usage** – Monitoring your energy usage and keeping a record of where your biggest costs lie will enable you to make necessary improvements. Servicing your boiler could make immediate energy savings of as much as 10%!

✔ **Get everybody involved** – Employee engagement is paramount to cutting energy consumption. Draw up an environmental policy and make sure all staff are aware of their energy usage. Assign responsibilities to staff to ensure the policy is taken seriously.

✔ **Last out? Turn the lights out!** – With three quarters of SME employees working beyond their normal hours, overtime is a significant contributing factor to higher energy costs. Make sure that the last person to leave the office is responsible for turning off costly appliances before they leave.

✔ **Waste not** – Make recycling easier by placing appropriate bins near the source of the waste. For instance, put paper recycling bins next to photocopiers and printers. Take away individual bins and replace them with communal recycling bins.

✔ **The small things** – Making slight modifications to your business premises can have a big impact on energy usage. For instance, fitting a variable flush or siphon mechanism in the bathroom can save up to four litres of water per flush, at a cost of around £20. Energy-efficient light bulbs are fast becoming the norm, saving up to 50% of energy immediately, and lasting ten times longer than a normal light bulb.

✔ **Get your timing right** – Installing motion detector lighting in areas that are not used regularly, and setting computers, heating and other electrical equipment on a timer, can eliminate unnecessary costs.

✔ **Remote control?** – By offering remote access to systems, cloud computing could reduce the number of computers and other hardware that is run and maintained in-house, while also minimising the need for related support staff.

In today's challenging economic climate, and with energy costs continuing to spiral, there are strong environmental and economic reasons to review your energy efficiency. In addition, adopting a positive approach to environmental issues can boost staff morale and improve your business reputation. As well as the savings in running costs, you could benefit from new business opportunities as a result of making your business greener.

Business Round-Up

Further details released on the new Business Bank

The Government recently launched the first phase of the new Business Bank, releasing £300m of funds for small and medium-sized businesses.

The Bank aims to bring billions of pounds of aid together, managing £2.9bn of existing Government debt and equity schemes, with an extra £1bn dedicated to areas such as non-bank lending.

The Government funding comes from the small business tranche of the Business Finance Partnership, a programme set up to ease the flow of credit to businesses by diversifying the sources of finance available to them.

The first allocation of funding was put forward by the Department for Business, Innovation and Skills (BIS) and £55m was assigned to four lenders: Funding Circle; BOOST&Co; Zopa and Credit Asset Management Limited.

Three new lenders – Market Invoice, URICA and Beechbrook Capital – will gain access to a further £30m of Government funding. Each lender has vowed to attract more funding for the scheme from investors in the private sector and it is hoped that they could boost the pool of credit available to an estimated £70m.

Overall, the seven lenders are predicted to attract non-government investment alongside government finance to create a lending total of more than £240m, in the hope that it will boost lending to SMEs.

The BIS will oversee the operations of the Business Bank as a provisional arrangement and it is predicted to be fully operational and independent by Autumn 2014. Until then however, it will effectively be a branch of the BIS, which will have a duty and responsibility over how it is run.

Small businesses given more time to comply with RTI

HMRC has temporarily relaxed the Real Time Information (RTI) reporting arrangements for businesses with fewer than 50 employees.

The new RTI regime is being phased in from April, although ahead of its introduction HMRC acknowledged that certain employers may need longer to comply with the new requirements.

As a result, until 5 October 2013 employers with fewer than 50 employees who pay their staff weekly or more regularly and find it difficult to report at the time of payment may now send information by the date of their regular payroll, but no later than the end of the tax month.

Businesses employing more than 5,000 people will arrange a 'migration date' between April and October with HMRC. The scheme will be mandatory for all employers from October 2013.

The Revenue will continue to assess the impact of RTI on the smallest businesses throughout the summer.

To discuss the implications of the new RTI regime for your business, please contact us. We would welcome the opportunity to advise on your individual circumstances.

Web Watch

Essential sites for business owners

www.smarta.com
Support platform for business owners and entrepreneurs.

www.businessfunding.co.uk
Resource for businesses seeking funding or finance to start, grow or survive the downturn.

www.greenwisebusiness.co.uk
Resource and information service for firms that want to learn more about the opportunities and challenges of moving to a low carbon economy.

http://realbusiness.co.uk
Network for growing SMEs and entrepreneurs.

Reminders for your Summer Diary

June

30 End of CT61 quarterly period.

Annual adjustment for VAT partial exemption calculations (March VAT year end).

July

6 Deadline for submission of Form 42 (transactions in shares and securities).

Deadline for submission of EMI40 (EMI Annual Return).

File Taxed Award Scheme Returns, file P11Ds, P11D(b)s and P9Ds. Issue copies of P11Ds or P9Ds to employees.

14 Due date for income tax for the CT61 period to 30 June 2013.

19/22 Quarter 1 2013/14 PAYE remittance due.

Final date for payment of 2012/13 Class 1A NICs.

31 Second payment due date for 2012/13 Class 2 NICs.

Second Self Assessment payment on account for 2012/13.

Annual adjustment for VAT partial exemption calculations (April VAT year end).

Liability to 5% penalty on any tax unpaid for 2011/12.

Deadline for tax credit Annual Declaration (if estimated, final figures required by 31/01/14).

August

2 Submission date of P46 (Car) for quarter to 5 July.

31 Annual adjustment for VAT partial exemption calculations (May VAT year end).