Chartered accountants & lawyers UK 200 group

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Business Update

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The innovating business

The Catapult programme exists to help UK businesses take ideas off the drawing board and turn them into reality. To date, the programme has supported nearly 6,000 small and medium enterprises looking to bring new products and services to market.

Run by government-sponsored Innovate UK, the Catapult programme connects UK businesses with resources, equipment, expertise and contacts in the UK research and academic community. The programme works via a network of not-for-profit technology and innovation centres throughout the UK. It is targeted at high-tech sectors, and each centre has a particular specialism. These include compound semiconductor applications; digital; energy systems; high value manufacturing; and offshore renewable energy.

The centres can be used by any UK business, regardless of size or longevity. To help you decide if the programme is right for your business, each centre has its own website and social media channels. There are also business development teams available to talk to those interested. Further information is here **catapult.org.uk**.

IR35 shake-up

The Autumn Budget brings change to the 'off-payroll' working (IR35) rules from April 2020.

This may affect you if you work on a contract through a personal service company (PSC) in the private sector, or hire or place such workers. Similar rules already apply in the public sector.

The IR35 rules aim to prevent avoidance of tax and National Insurance Contributions (NICs). The rules target those working for a client through an intermediary (usually a PSC), where the use of the intermediary means that the worker avoids being taxed as the client's employee. At present, responsibility for deciding if IR35 rules apply to a private sector contract lies with the intermediary. If IR35 applies, the intermediary has to account for PAYE and NICs on the fees received. From 6 April 2020, responsibility for deciding employment status passes from the intermediary to the party engaging the worker. If IR35 applies, the business, agency or third party paying the intermediary must deduct income tax and employee NICs. It will also become liable for employer NICs.

The change impacts 'medium and large' businesses using an intermediary, but not 'small' businesses. Following the Companies Act 2006 definition of a small company, this will probably exempt businesses meeting any two of these criteria: a turnover of £10.2 million or less; having £5.1 million on the balance sheet or less; having 50 or fewer employees.

HMRC has an online Check Employment Status for Tax (CEST) tool to help decide whether the off-payroll working rules apply to any given contract **bit.ly/2AwDfwP**. It can be used by workers, hirers, or agencies placing a worker. HMRC will stand by the result - unless a compliance check finds that information supplied was inaccurate. You can use the service anonymously. It will store neither your details, nor its findings. You can however, print the result, and this is essential. If there are changes to the working arrangement, we recommend that you run the new details through the check again. But problems over employment status do arise in practice, even when the tool is used, and HMRC is committed to improving CEST's usefulness. We are always happy to advise in this area.

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Chasing late payments

Nearly a quarter of UK businesses report that late payments threaten their survival. The Federation of Small Businesses reports that the problem goes beyond just paying late. It encompasses practices like retrospective discounting and 'paying-to-stay', which sees smaller companies paying to be retained as suppliers without any promise of work.

If no explicit terms for payment are agreed, then legally, payment is assumed to be due after 30 days for the purpose of charging statutory interest. At present, a government-sponsored voluntary Prompt Payment Code exists, requiring signatories not only to pay within 60 days - in line with legal requirements - but also to work towards payment within 30 days. Some large businesses now have to report on their payment terms and practices, to allow other businesses to check their payment track record before taking on work. The government also encourages recourse to the Small Business Commissioner, whose office helped small businesses recover over £2 million in unpaid invoices last year. It will now also have input into the Prompt Payment Code.

The government is looking into new ways to require large firms to pay supply chains promptly. Ensuring company boards have responsible payment practices in place throughout their supply chain is one area under consideration. So, too, is helping small businesses pro-actively manage the payments process, using state-of-the-art accounting software. This is an area in which we would be happy to advise.

Change for charities

Although charity law varies across the UK, charity governance is very much in the spotlight. The Charity Commission for England and Wales (CCEW) recently reported that nearly 40% of small charities - those with annual income below £25,000 - submitted inaccurate financial information.

CCEW is concerned that those given the job of submitting small charity annual returns should be sufficiently skilled to perform the role accurately. It highlighted the fact that failure to provide accurate financial information can be misleading and negatively impact levels of trust in the general public.

Annual returns

Against this background, charities registered in England and Wales should be aware of developments regarding annual returns. Returns must be submitted no later than 10 months after the end of the financial year, and charity trustees must keep the charity's registered details up to date.

From November 2018, the service to update these details changed. All charities must now check and update their details online before they can submit their annual return. Charities will only need to provide missing information the first time they sign in, or when they need to update their charity details. Charities will be able to choose which sections or information to edit and update.

Information required includes all current trustee names; their contact details, including an email address; and details of the charity UK bank/building society accounts. Bank/building society details will not be available publicly.

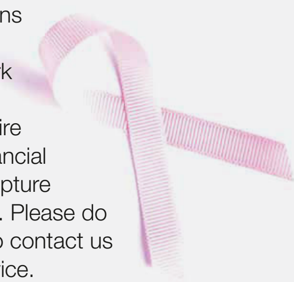
From 1 April 2019, full legal names will show to the public, and trustees will not be able to use a 'public display' name on the charity register. If, however, this would cause personal danger to an individual, it is possible to apply for a dispensation.

New questions are introduced in the 2018 return, which can be previewed before signing in. Some are optional for 2018, but mandatory from 2019. They are intended to allay public concerns, for example about high levels of pay in charities, or to highlight possible areas of risk, say in relation to money transfer overseas.

New questions for 2018 include a breakdown of salaries across income bands, and the amount of total employee benefits for the highest paid member of staff. There are also questions about the use of professional fundraisers; receipt of grants and contracts from central government and local authorities; and questions on safeguarding children and adults at risk.

Overseas expenditure is another area of scrutiny. Charities spending money outside England and Wales will need to explain if they have transferred money overseas by a means other than the regulated banking system. Other questions concern controls to monitor overseas expenditure, and whether trustees are satisfied that risk management policies and procedures are adequate for charity activities and place of operations. These are mandatory from 2019, but optional for 2018. Questions about income received from outside the UK are also introduced. Again, some are optional for 2018, but then become mandatory.

The new returns mean some additional work for charities, and may require change to financial systems to capture relevant detail. Please do not hesitate to contact us for further advice.



Tax change round-up

Class 2 National Insurance retained

The proposal to abolish Class 2 National Insurance Contributions from April 2019 has been dropped.

Class 2 is paid on profits if you are self employed. The rate is £2.95 per week for 2018/19 and £3 per week for 2019/20. Where profits are less than the 'small profits threshold' (SPT), there is no liability, but you can make voluntary Class 2 payments to maintain entitlement to state pension and other contributory benefits. The announcement is therefore welcome news for those using Class 2 in this way. The SPT is £6,205 for 2018/19 and £6,365 for 2019/20.

Rent a room changes

Rent a room provides tax relief of up to £7,500 if you let out a furnished room in your own home to a lodger. Proposals to restrict the relief by introducing a shared occupancy test were dropped in Budget 2018. The restriction was aimed at those using rent a room to cover short term letting via Airbnb and other platforms, rather than to provide housing. Retaining the original rules will benefit those, say, looking to let out rooms while they themselves are away on holiday.

New era for capital allowances

Annual Investment Allowance

Budget 2018 brought change to the capital allowances regime, including a two-year increase in the Annual Investment Allowance (AIA). This rises from £200,000 to £1 million for expenditure incurred on or after 1 January 2019.

The £200,000 limit currently in existence gives 100% tax relief on expenditure on qualifying plant and machinery (but not cars) for businesses and owners of commercial property. For a business planning more major expenditure, the new limit will be welcome news. Please speak to us if your accounting year end spans the 31 December 2018 cut-off, to ensure that you maximise qualifying expenditure.

New Structures and Buildings Allowance

A new capital allowance, the Structures and Buildings Allowance (SBA), will give relief for expenditure on certain structures and buildings. Since the ending of Industrial and Agricultural Buildings Allowances, no relief has been available for most structures and buildings. The SBA addresses the gap, and is intended to encourage investment in construction for commercial activity.

Relief will be given on eligible construction costs incurred on or after 29 October 2018. Where a contract for the physical construction work is entered into before this date, relief is not available. The rules are subject to consultation, but the broad proposals are as follows below.

Key facts

The SBA will be available for new structures and buildings intended for commercial use, and the improvement of existing structures and buildings, including the cost of converting or renovating existing premises to qualifying use.

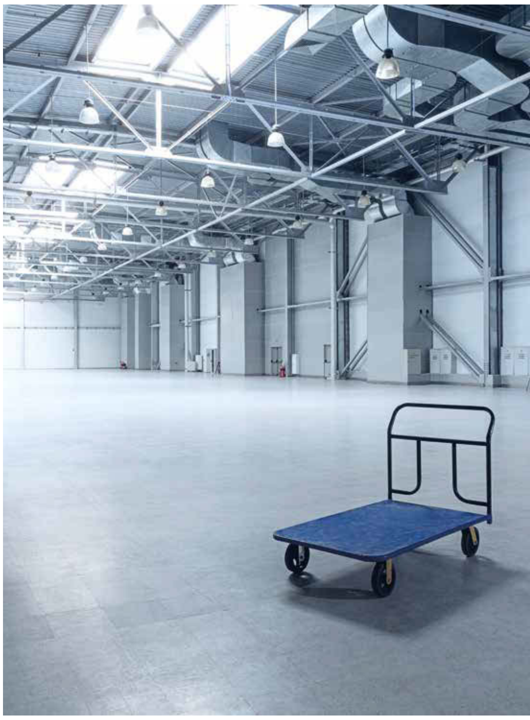
Relief will be available to businesses chargeable to income tax and companies chargeable to corporation tax. It will be limited to the original cost of construction or renovation, and given across a fixed 50-year period, at an annual flat rate of 2% regardless of changes in ownership.

When the asset is disposed of, the purchaser will continue to claim the annual allowance of 2% of the original cost if the asset continues to be used for a qualifying activity. There will be no balancing adjustments on sale for the vendor. For chargeable gains purposes, the allowable cost of the asset will be reduced by the total amount of relief claimed.

Relief for the SBA will be available from the date the structure or building is brought into use for the first time for a qualifying activity.

UK and overseas structures and buildings will be eligible where the business is within the charge to UK tax.

Special provisions will apply for leasing transactions. Where an asset is leased, both lessor and lessee may be able to claim the SBA for qualifying expenditure that they themselves incur on construction works. However special rules will apply where the grant of a lease is substantially the sale of the property interest. These rules may result in the lessee becoming entitled to the attributable SBA.



Qualifying activities

Only certain expenditure will qualify. The structures or buildings must be brought into use for qualifying activities. These include trades, professions or vocations, and certain UK or overseas properties businesses - essentially commercial property lettings. The type of structures and buildings covered awaits final clarification, but is expected to include: offices; retail and wholesale premises; walls; hotels and care homes; factories and warehouses.

Exclusions and apportionment

Expenditure on land or residential property or other buildings functioning as dwellings will not be eligible. What constitutes a dwelling is to be clarified. University, school or military accommodation, and prisons look set to be classed as dwellings. Work spaces forming an integral part of a dwelling, such as home-offices, will not be eligible. With mixed use, such as between commercial and residential units in a development, relief will be apportioned.

Please do contact us for advice on tax-efficient expenditure.

Capital gains tax and your home

Where a property is someone's residence for all their 'period of ownership', there is no capital gains tax to pay on the sale of a main private residence. But with off-plan purchase, where a property is purchased before it's built, the position with regard to capital gains tax is proving more contentious.

In 2017, a case concerning principal private residence relief (PRR) and an off-plan purchase resulted in victory for the taxpayer. The case was brought by Mr Desmond Higgins, who had bought an off-plan apartment in 2006. Because of delays in construction attributable to the credit crunch, he was unable to take up occupation until 2010. He subsequently sold the apartment a year later for substantially more than he had purchased it.

HMRC sought to restrict the PRR available in this case. It argued that Mr Higgins' period of ownership began in 2006 – even though this was before the apartment had actually been constructed. The tribunal however, held that ownership would ordinarily be said to start when a dwelling was physically and legally completed, and the purchaser had the right to occupy. It allowed Mr Higgins' appeal, upholding his right to PRR – and quashing a tax bill of over £60,000.

However, the Upper Tribunal has now reversed this verdict. It pointed out that the property was a chargeable asset acquired when unconditional contracts were exchanged - in this case in 2006.

Holding that a gain accrued over the entire period, from contract to purchase to ultimate disposal, the Upper Tribunal found that there was nothing 'unfair' in restricting PRR on an off-plan purchase. It also highlighted the fact that the taxpayer had the right, if he chose, to sub-sell the apartment before it was constructed. Had he done so, a chargeable gain would have arisen on any increase in value. 'There would have been no question of any main residence relief in relation to that gain,' the tribunal commented.

With anything pertaining to PRR, attention to the strict detail of the rules is important. Should you have any questions, we should be only too pleased to provide advice tailored to your individual circumstances.

How to keep staff

Keeping staff can be difficult. One recent report found that workers in the UK change employer, on average, every five years – and that millennials could have been through four different jobs by the time they are 31.

All of this can spell tough times for employers. High employee turnover means increased recruitment costs. Then there's the unavoidable disruption as new workers bed in, going through the induction and training they need before they're effective new members of your team. There can also be knock-on consequences for morale among staff 'survivors', who can find constant change unsettling.

My generation

It can be helpful to segment your workforce when recruiting and designing incentives. Be aware of the difference between generations. Research suggests that different generations have different search images for employment. Whereas earlier generations have favoured medical and dental insurance as workplace incentives, this appears to have less attraction for millennials. As far as millennials are concerned, the possibility of taking extra leave carries more weight. The difference in generations also shows up when it comes to the factors pulling millennials towards employers. Here they appear to favour the more tech-savvy employer – those with a more digital operation.

Quality of life

Experts are increasingly linking the ease with which staff can be retained to overall feelings of wellbeing. And there is evidence that, right across the board, quality of life incentives offered by employers can make a disproportionate impact to staff perceptions.

Quality of life incentives can be radical and don't always need to cost the employer money. Offering staff the opportunity to bring a dog to work, for instance, could transform employee experience. One company offers Pawternity Leave – 'like Parental Leave, but with more throwing of sticks' - to staff with a new dog. Allowing staff to listen to music on headphones, or personalise their workspace with personal effects are other low-cost, but potentially high-impact, suggestions.

Feedback

Getting a two-way flow of communication, so that employers know what works for staff, and where change might be beneficial is another key recommendation. Carrying out regular staff satisfaction surveys can be one way to do this. An employer can do this formally or informally. One employer sent Valentine's Day cards to staff, asking them to say one thing they liked about their work and one they would like to change. Before long, it reported a 13-point increase in response to the statement 'I believe management will act on feedback.'

Financial stress

Research shows that possibly as many as 40% of employees are under financial stress. This can lead to lower productivity, absence and poor relationships with colleagues. It can also impact mental health. A new and increasingly popular move to help here is staff financial education. Providing skilled advice on budgeting, savings and planning for retirement can make a valuable staff incentive package. We should be delighted to assist in this important area.