Autumn 2015 Issue 26

WatsON

Accountants ● Business Advisors

MINIMUM WAGE VS LIVING WAGE

Benefits cut for low paid workers but compulsory living wage introduced

The new compulsory living wage, introduced as a result of the first Conservative Budget, will come into effect from April 2016. It will be paid to workers aged 25 and above, initially set at £7.20 per hour with a target of reaching more than £9 per hour by 2020.

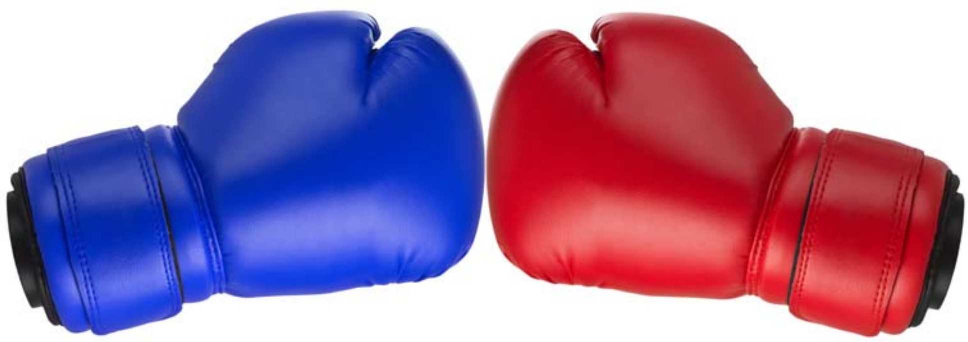
The Office for Budget Responsibility estimates that this change will give a pay rise to six million workers, but could cost 60,000 jobs and reduce hours worked by four million a week.

FROM 1 OCTOBER 2015 THE NEW MINIMUM WAGE RATES ARE:

- Adult rate increases by 20p to £6.70 per hour
- Rate for 18 to 20 year olds increases by 17p to £5.30 per hour
- Rate for 16 to 17 year olds increases by 8p to £3.87 per hour
- Apprentice rate increases by 57p to £3.30 per hour

FROM 1 APRIL 2016 RATES CHANGE TO:

- Rate for 25+ years old increase by 50p to £7.20 per hour (the compulsory living wage)
- Rate for 20 to 24 year olds remains £6.70 per hour
- Rate for 18 to 19 year olds remains £5.30 per hour
- Rate for 16 to 17 year olds remains £3.87 per hour
- Apprentice rate remains £3.30 per hour



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FINANCING START UPS WITH SEIS

Can SEIS help with your new start up business

Raising finance for a start up company can be difficult at the best of times, but it can be somewhat easier if investors are protected should your company do less well than expected.

This is where the generous tax breaks offered under the Seed Enterprise Investment Scheme (SEIS) can come into play. The SEIS Income Tax reliefs alone mean that an additional rate taxpayer is risking just £2,750 of every £10,000 invested if the worst happens and your company's shares become worthless. Investors will benefit by £5,000 if the shares do not grow in value, and if your company prospers the SEIS investment can be sold tax free.

HM Revenue & Customs (HMRCs) Small Companies Enterprise Centre (SCEC) will decide if your company and share issue qualify and we recommend companies to get advance assurance of qualification.

QUALIFYING CONDITIONS

Not surprisingly, the qualifying conditions for the company are quite stringent, including:

- If the company is already trading, the trade must have been carried on for less than two years.
- Various 'safe' trades, such as property development or running a hotel, nursing home or residential care home are not permitted.
- You must have fewer than 25 employees.
- Gross assets cannot exceed £200,000.
- The company has to be unquoted, although listing on the AIM or ISDX markets is permitted.
- There cannot have been any previous investment under the Enterprise Investment Scheme or from a venture capital trust.

The total amount that your company can raise under the SEIS is limited to £150,000 and the shares issued must be full risk ordinary shares and fully paid up.

Your investors will not be able to claim any tax reliefs until you receive SCEC authorisation. However, you cannot apply for this until the company has either been trading for four months or at least 70% of the money raised by the share issue has been spent. Once authorised, the SCEC will issue the company with a certificate as well as tax relief claim forms for you to forward to your investors.

If your company has already started trading, you need to start planning well in advance of the two year deadline. It could take up to two months to obtain advance assurance from the SCEC and you will then need to find investors – they may not be interested until you have SCEC assurance.

If you think this could be of assistance and for more information give us a call on 01323 842 119.

IS IT TIME TO SWITCH TO CLOUD ACCOUNTING

We drill down into the facts

Everyone is getting in on the act these days. The companies behind Amazon Cloud, Dropbox and a host of others are keen for you to store every scrap of data on their servers. But cloud accounting is about more than just storage; the main program itself operates on a remote computer. This has pros and cons.

KEY FACTORS

Sometimes referred to as "software as a service" (SaaS), cloud computing has been around for about a decade, but is now snowballing in popularity. The trouble is there is so much hype it can be difficult to obtain an objective view as to whether it is a good thing for your company. So here are a few key factors you should consider.

ACCESS ISSUES

If your company is in an area with a less than reliable connection to the web, it can mean that you are cut off from your bookkeeping and accounting functions when the Internet goes down. In this case cloud accounting is probably not for you and your company. This is also the case if you don't like the thought of having your company's financial data stored remotely.

COST

At first glance virtually all cloud accounting services look relatively cheap. For very small businesses they start at about £10 per month and go up to around £50. But the companies concerned are in business to make money and will push you to take additional services, for example automatic downloading of transactions from your company's bank account. Some of these services come as standard with several of the packages, but are extras with others.

Tip. Decide what you need from your cloud service, e.g. automatic data download from your bank, multiple access computers, then shop around accordingly. This way you'll avoid paying for services you don't need and won't use.

REMOTE ACCESS

One definite benefit of cloud computing services is that they can be used from more or less anywhere you or your bookkeeper has access to a computer. You might not want to look at who owes you money while you are away on holiday, but it gives you that option. Plus, if your bookkeeper is freelance they can easily carry out work off site without you having to create special network links to your system.

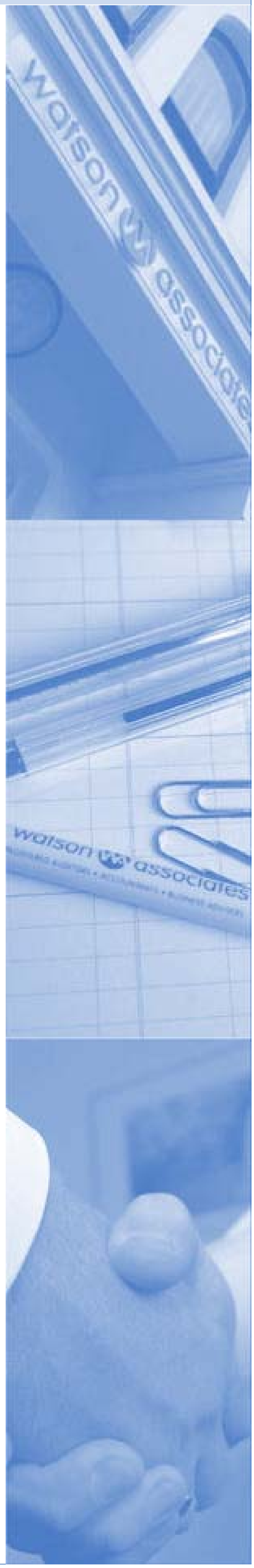
PRACTICAL ADVANTAGES

We have experience using all major cloud accounting packages (Xero, Sage One and QuickBooks online). If you choose the same, it could make the process of providing data for your financial accounts more streamlined. We pick up the data directly from the cloud, negating the need to transmit data files. We can make amendments easily to your data files and so providing a more cost efficient service.

The bottom line. There is no compelling reason to switch to cloud accounting; it is a matter of personal preference. But it is fair to say that it is a proven product which can give time and cost efficiency savings.

NEW RULES FOR DIVIDENDS - AN UPDATE

Addendum to our Summer 2015 WatsON article



In the Summer 2015 Budget, George Osborne announced fundamental changes to the way in which dividends are taxed. The changes take place for dividends received from 6 April 2016. Some individuals who extract profits from their company as dividends may need to consider whether to increase dividend payments before this date.

When a dividend is paid to an individual it is subject to different tax rates compared to other income due to a 10% notional tax credit being added to the dividend. So for an individual who has dividend income which falls into the basic rate band the effective tax rate is nil as the 10% tax credit covers the 10% tax liability. For a higher rate (40%) taxpayer the effective tax rate on a dividend receipt is 25%.

FROM 6 APRIL 2016

- The 10% dividend tax credit is abolished with the result that the cash dividend received will be the gross amount potentially subject to tax.
- New rates of tax on dividend income will be 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.
- A new Dividend Tax Allowance will remove the first £5,000 of dividends received in a tax year from taxation.

Many owner managers running their business through a limited company will pay more tax next year if most of the profits are paid out as dividends rather than as a salary. This prospect raises a number of questions which we answer below.

WILL TRADING AS A LIMITED COMPANY STILL BE THE BEST OPTION?

There is still a benefit in tax terms for most individuals to continue to trade as a limited company. The tax saved by incorporation compared to being unincorporated will be reduced next year but there is still an annual tax saving.

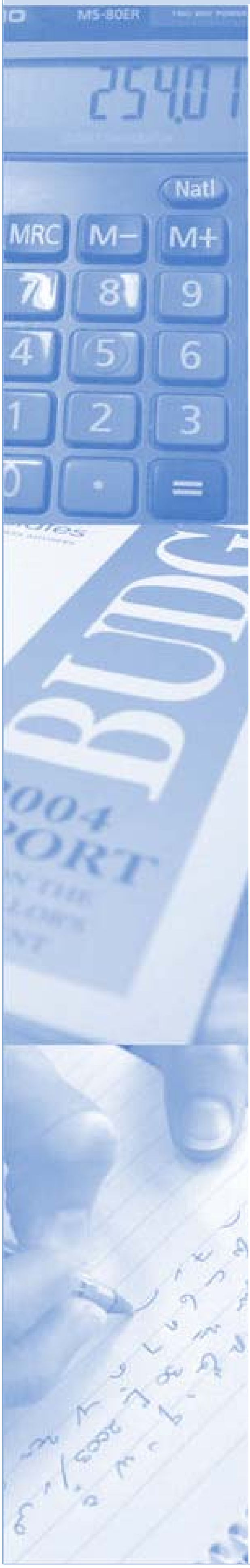
WILL IT BE BETTER TO TAKE A DIVIDEND RATHER THAN AN INCREASE IN SALARY?

There is still a benefit for a director shareholder to take a dividend rather than a salary. The amount of the tax saved will be less than under the current regime.

SHOULD DIVIDENDS BE PAID BEFORE 6 APRIL 2016?

If you do not currently extract all the company profits as a dividend you may wish to consider increasing dividends before 6 April 2016. However, other tax issues may come into play, for example the loss of the personal tax allowance if your total 'adjusted net income' exceeds £100,000. There will also be non tax issues such as the availability of funds or profits in the company to pay the dividend.

Please contact us before you make any decisions about changing the amount of dividends taken. Please note our responses to the questions raised above are based on only limited information that has been supplied by the Government on the new regime. We expect draft legislation for the regime to be published by the end of the year.



EMPLOYEE BENEFITS

A win-win for all

If you provide your employees with a range of social benefits focused on childcare, eldercare and health care, then you should expect some improvements in productivity in return.

You might decide to make use of the expertise of a specialist benefits provider; doing so should lighten your administrative burden and give your employees access to a wider choice of benefits.

You can, of course, help employees with both childcare and eldercare by offering flexible working and working from home, and neither will result in any tax cost. You could even pay a tax free amount of up to £4 a week towards the additional costs that an employee incurs as a result of working at home.

Employers normally provide employees with financial assistance with childcare through the use of tax free childcare vouchers, with each parent able to receive up to £2,916 annually. Childcare vouchers are usually offered under a salary sacrifice arrangement but that is not essential. With salary sacrifice, an employee gives up a portion of taxable salary in return for tax free vouchers, saving both tax and NICs.

The childcare voucher scheme will no longer be available to new entrants from early 2017, so now could be a good time to be bringing people on board. You can also provide employees with tax free nursery or child minding facilities but any other childcare support will be taxed.

Unfortunately, the same applies to any eldercare support given to employees caring for parents.

Employees can make use of a company gym without any tax implications whether it is provided free or at a subsidised price. You can also provide healthy food in a company canteen. However, if you pay for a fitness club membership or provide a dining card, there are likely to be tax implications. Cycling to work can be encouraged by providing employees with tax free bicycles and safety equipment, and an employee can be given the opportunity to purchase the bicycle at a fair market value following the end of the loan period.

You can provide tax free annual health checks, health counselling and eye tests (where an employee is required to use a computer) but medical insurance and medical treatment are normally taxable. There is, however, an annual exemption of up to £500 if you pay for medical treatment to help an employee return to work following sickness or injury.

Be warned that tax free benefits are generally subject to strict conditions and often have to be available to your entire workforce for the tax free status to apply.

Please get in touch if you want to discuss any aspect of your current benefits package, or to find out more about upcoming changes.

STAFF ROOM

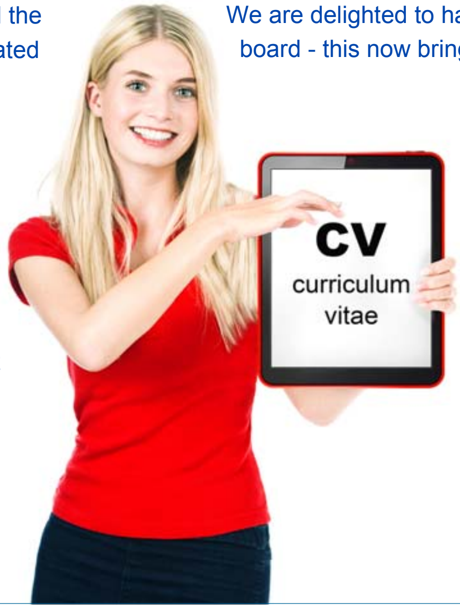
NEW MEMBERS TO THE WA TEAM

A warm welcome to our new staff members

Over the last few months we have had the good fortune to be able to add to our dedicated team of professionals.

Here are the names of our new full time members of staff who you may have contact with from time to time - may we introduce:

Abigail Slater - Reception
Andrew Talbot - Payroll Assistant
Anita Stamford-Plows - Accounts Assistant
Joe Funnell - Trainee Accountant
Sam Hartfield - Trainee Accountant
Tina Hammond - Tax PA



We are delighted to have the new members of the team on board - this now brings our numbers up to 55!

All of the Directors at Watson Associates are committed to recruiting and training qualified staff at all levels and would encourage anyone interested in pursuing a career in accountancy to contact us.

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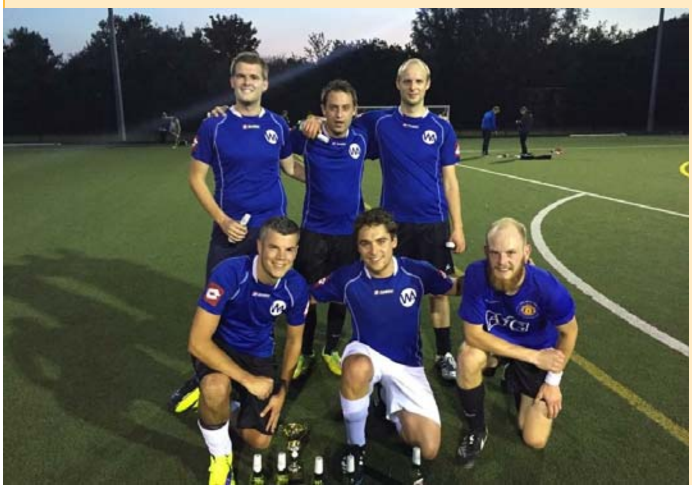
WA FIRMBALLS 5 A-SIDE VICTORY

A winning combination

STAFF ROOM



Back row: Gary Walke, Tom Harper, Nick Gooch
Front row: Chris Ayling, Alex Hutchinson, Adam Gooch

September 2015 saw the Watson's boys lift the FirmBalls 5 A-side trophy for the second year running after beating MMPR Limited in the Eastbourne Champions League Final.

FirmBalls is specifically aimed at businesses and professionals. It enables firms to play competitive football whilst using the sport as a forum for team building, marketing and networking. As a result the Watson's team meet various other businesses across the fixtures including solicitors and marketing companies etc.

Congratulations guys...

Good luck in the new season!

Dates for your Diary

25 November 2015	Chancellor's Autumn Statement
1 January 2016	Due date for payment of Corporation Tax for the period ended 31-3-2015
31 January 2016	First Self Assessment payment on account for 2015/2016
	Capital Gains Tax payment for 2014/2015
	Balancing payment for 2014/2015 Income Tax/Class 4 NICs due
	Last day to file 2015 Tax Return online
2 March 2016	Last day to pay balance of 2014/2015 tax and Class 4 NICs to avoid automatic 5% penalty
March 2016	Budget speech by Chancellor of the Exchequer
31 March 2016	End of Corporation Tax financial year