Autumn 2016 Issue 29

WatsON

Accountants ● Business Advisers

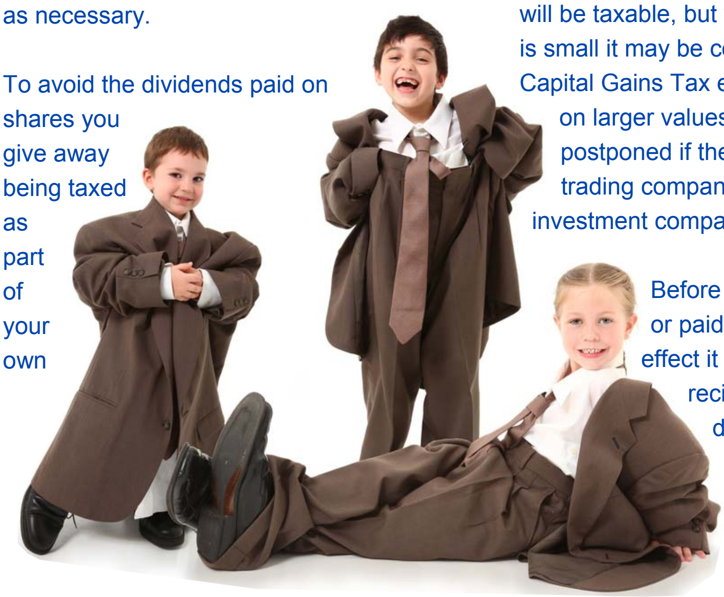
DIVIDENDS: REDUCE THE TAX YOU PAY

Spreading dividends around the family

Every UK resident individual can receive up to £5,000 of dividends tax free each year, whatever their marginal rate of tax. As a company owner you could arrange for your family members to receive dividends from your company to take advantage of this.

Spreading dividend income in this way can reduce the tax you pay, if that income does not pass through your hands first. Dividends can also be used to help support your children through university.

The first step is to ensure your family members hold shares in your company which entitle them to receive dividends. You can give those individuals some of your own shares if you already hold sufficient shares yourself. We can help your company issue more shares and different classes of shares as necessary.



To avoid the dividends paid on shares you give away being taxed as part of your own income, the shares should carry full rights to receive part of the company's capital on a winding up, as well as rights to receive variable rates of dividends. You should only make gifts of shares to your children once they have reached the age of 18.

If your family members also work for the company there is a risk that the value of the shares they receive will be taxed as part of their employment income. However, there is a general exemption for gifts made within a family relationship, so make that clear in any documents relating to the gift. Alternatively, the family members could subscribe directly for new shares in the company.

If you give shares to your spouse or civil partner (while you live together), the gift is not taxed. Gifts of shares to other individuals will be taxable, but when the value of the gift is small it may be covered by your annual Capital Gains Tax exemption (£11,100). Tax on larger values of shares can be postponed if the company is mainly a trading company (as opposed to an investment company).

Before any dividend is declared or paid, it is wise to review the effect it will have on the recipients. Where the dividend tips an individual's total income over £50,000 or £100,000, they could lose child benefit or personal allowances.

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NATIONAL LIVING WAGE OR NATIONAL MINIMUM WAGE

Here is what every employer needs to know

The Government's new National Living Wage (NLW) has been Law since 1 April 2016. Anybody working, aged 25 or over and not in the first year of an apprenticeship, is legally entitled to at least £7.20 per hour. The Government is committed to increasing this every year. Despite its name, this new rate is essentially a Minimum Wage for the over 24s.

The NLW will not increase until April 2017.

The National Minimum Wage (NMW) will also increase again in April 2017 so both the NLW and NMW will then run in line in the future.

Employers will need to make sure they are paying their staff correctly as the NLW will be enforced as strongly as the current NMW.

The table below shows the NMW and NLW rates applying from 1 October 2016.

	National *Minimum* Wage	National *Living* Wage
Apprentices*	**£3.40**	**-**
16 and 17	**£4.00**	**-**
18 - 20	**£5.55**	**-**
21 - 24	**£6.95**	**-**
25 and over	**-**	**£7.20**

* Under 19, or 19 and over in the first year of their apprenticeship

For further information please contact the Payroll Team.

INVESTORS' RELIEF

Significant new conditions imposed

This tax relief could allow you to pay only 10% Capital Gains Tax on gains you make on shares held in trading companies. The conditions you need to meet for this relief have changed significantly in recent months.

- The shares must have been issued directly to you on or after 17 March 2016 and you must hold them continuously for at least three years. When the shares are issued the company must not be quoted on a recognised stock exchange, but it can become 'quoted' later.

- You cannot take advantage of Investors' Relief if you are already employed by the company but you can become an employee of the company six months or more after you subscribe for the shares. You must not be offered employment with the company when you subscribe for your shares.

- You are permitted to become an unpaid director of the company and hence influence the running of the company. You can be paid reasonable expenses which are directly related to the costs you incur as a director, but you must not be paid a salary for that role.

- There are strict rules to prevent you extracting value from the company other than as rent or interest paid on a commercial basis.

The conditions which you and the company need to meet to qualify for Investors' Relief are very complex. We can guide you through them step by step.

BOOKS AND RECORD KEEPING

How long should you keep your records?

There is no simple answer to this question because different types of record are covered by different types of legislation, as shown by the following summary:

VALUE ADDED TAX

By Law, VAT records have to be kept for six years unless HM Revenue & Customs (HMRC) allows a shorter period. Any request you make to keep records for a shorter period must be accompanied by a full explanation of why it is considered impractical to keep the records.

PAYE

HMRC recommends that pay records be kept for at least three years after the Income Tax year to which they relate.

TAXES GENERALLY

For periods before the start of self assessment HMRC can issue an assessment at any time up to six years after the end of the chargeable period to which the assessment relates. There is no limit in cases of fraud or wilful default. All business records must be retained for a period of (broadly) six years.

COMPANY RECORDS

Under Corporation Tax Self Assessment, accounting records must be preserved for six years from the end of the accounting period.

With regard to the statutory books, there are no specific requirements, but the Companies Act states that an entry relating to a former member of the company may be removed from the Register of Members ten years from the day he or she ceased to be a member.

The requirement for the Register of Directors and Secretary to include details of past directorships held within the preceding five years was removed with effect from 1 October 2009.

GOVERNMENT GRANTS

Documents relating to Government grants must generally be kept for four years from receipt of the grant. Where grant aid is still being received, no documents should be destroyed without consulting the relevant Government department.

EMPLOYERS' LIABILITY POLICY CERTIFICATES

The former requirement to keep Employers' Liability policy certificates for forty years has been replaced by guidance. Businesses are reminded that their potential liability for illness and injury at work does not end when the policy expires. Records should be retained to ensure that any future claim can be met.

LIMITATION ACT 1980 - GENERAL PERIODS

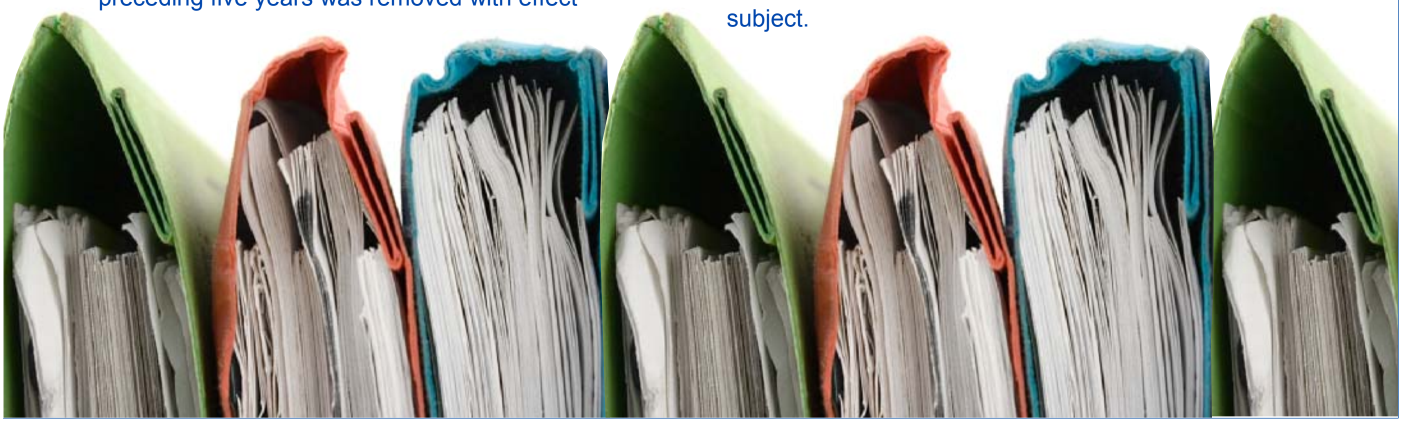
The 1980 Act allows an action to be brought on a contract for up to six years from the event (e.g. breach) that gave rise to the claim.

Where a contract is under seal (or deed), the time limit is twelve years.

These periods govern how long invoices and other documents should be retained as evidence in case of a claim by, or against, another party.

Taking into account the various requirements outlined above, we recommend that you keep ALL records for at least six years after the end of the accounting period or tax year.

Do call us if you would like further help or advice on this subject.



VAT FLAT RATE SCHEME

Do you have a turnover of under £150,000? This Scheme could prove useful

The scheme can be helpful for businesses with turnover under £150,000 as it is simple to use. You can even make money out of the scheme if the flat rate percentage applicable to your trade sector is particularly favourable.

EXAMPLE

A journalist pays 12.5% of gross sales as VAT each quarter and doesn't have to report the costs of business purchases on the VAT Return.

There is an exception when buying assets costing £2,000 or more.

You need to pick the right trade sector for your business. Use normal English to describe what your business does and compare this to the HMRC guidance. We can help you with that.

Anomalies can create difficulties:

- Software is grouped with computer and IT consultancy (flat rate 14.5%); but
- publishing (flat rate 11%) covers books, journals, newspapers and sound recordings.

Therefore a business that publishes information online as well as software will have products that fall under 'publishing' as well as in the 'computer and IT consultancy' sector.

The business owner must judge which products generate the majority of their sales and use the flat rate for the corresponding sector.

Once you are in the Flat Rate Scheme, review your choice of trade sector on the anniversary of the date on which you started to use it. Estimate which products will make up the greatest percentage of sales in the following year. Your new flat rate (if it changes) should be used from the beginning of that year.

If your business drops one type of activity completely, this may lead to a change in trade sector. In that case use the new flat rate percentage from the date the business activities changed until the next anniversary of joining the Flat Rate Scheme. Tell HMRC in writing within 30 days if you change the flat rate you use, the date it changed, and why.

TECHNOLOGY GLITCHES AND UPDATES

We take a look at current technical issues arising

CIS - ONLINE PROBLEMS

Construction Industry Scheme (CIS) online service verification issues discussed

As a contractor in the construction industry you must submit online monthly reports of the payments you make to subcontractors (CIS reports). But before you pay a ‘subbie’ you need to verify with HMRC whether they should be paid net or gross. This verification can be done by phone or online.

If you use the free HMRC software to submit your CIS reports, you may have experienced the following problems:

SUBBIES MISSING

You should not have to re-verify subbies you pay regularly, but the HMRC computer automatically deletes any subbies you haven't verified for two years or more. The solution is to re-verify the subbies concerned using the online system. If you use the telephone service for verification of subbies and then manually enter their details into the online CIS Return, those subbie's details will disappear on submission of the CIS Return. By verifying your subbies online, their details will be included automatically in your online CIS Return.

TIME OUT MESSAGE

This can happen if you have paid a large number of subcontractors. Try deleting the subbies you no longer pay regularly.

NEW SUBCONTRACTORS

If you make a mistake when choosing the category of subcontractor (e.g. self employed or company) when inputting those details into the CIS online service, there is no way to correct that detail. You need to delete the whole record and start again.

All of these problems can be avoided by using commercial software to submit your CIS Returns. We can do this on your behalf.

LOAN APPLICATIONS

Certifying income to support loan applications

We continue to see cases where lenders and brokers insist on HMRC provided SA302 tax calculations and will not accept a copy of the SA302 printed from an online HMRC account or a tax calculation printed from the commercial software used to submit Returns.

HMRC have now published a list of the organisations that have signed up to accept agent and taxpayer produced documents to which lenders and brokers who are incorrectly insisting on an HMRC provided SA302 can be referred.

PERSONAL TAX ACCOUNT UPDATE

An easier way to get your refund

Taxpayers can now opt to get their money back direct from HMRC via their digital Personal Tax Account (PTA) without the need for a cheque or trip to the bank. Tax overpaid will be returned directly to their bank account within three to five days. The online refund is just one of many services that can be accessed through the PTA (www.gov.uk/personal-tax-account).

STAFF ROOM

STEVE REACHES THE SUMMIT

Steve and James climb for charity

On 1 October 2016 Managing Director Steve Moore, accompanied by his son James, embarked on their journey to the summit of Mount Kilimanjaro!!

Standing 5,895m above sea level it is Africa's highest free standing mountain. Steve and James raised money for Ronald McDonald House, a charity which supports families of very sick children with the provision of accommodation to relieve at least some of the stress. Steve and James are delighted, grateful and in awe of the support they received both emotionally and in the form of very generous donations from clients, colleagues and friends - they have raised over £7,000.

If you would like to visit the website to check out their motivation for the climb please go to http://www.climb-mtkilimanjaro.com/the-team/ and scroll down to the 'Steve and James Moore' story.

Steve and James (right)
"It was the most exhilarating, emotional and mentally and physically challenging thing I have ever done!"

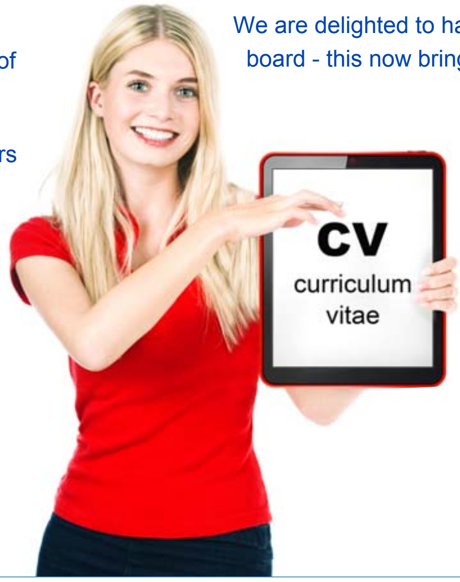
NEW MEMBERS TO THE WA TEAM

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:

Alison Heady - Tax PA
Emily Fawls - Corporate Team
Ellie Pengilly - Trainee Accountant
Jan Heap - Bookkeeping
Rebecca Connelly - Corporate Team
Richard Nelson - Corporate Team
Ryan Powell - Trainee Accountant
Sam Parker - Accounts Admin Assistant
Siobhan Beasley - Tax PA



We are delighted to have the new members of the team on board - this now brings our numbers up to 60!

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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Dates for your Diary

31 October 2016	Last day to file 2016 paper Tax Return
1 January 2017	Due date for payment of Corporation Tax for the period ended 31-3-2016
31 January 2017	First Self Assessment payment on account for 2016/2017
	Capital Gains Tax payment for 2015/2016
	Balancing payment for 2015/2016 Income Tax/Class 4 NICs due
	Last day to file 2016 Tax Return online
2 March 2017	Last day to pay balance of 2015/2016 tax and Class 4 NICs to avoid automatic 5% penalty
March 2017	Budget speech by Chancellor of the Exchequer
31 March 2017	End of Corporation Tax financial year