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Accountants • Business Advisors

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BUSINESS JOURNEYS

Tax case decides what some self employed businesses have long been asking

A number of self employed businesses have been waiting for a tax case to be decided which answered the question “What is a business journey?”.

The test case concerned a doctor who was both employed by the NHS and self employed as a private consultant.

The Upper Tax Tribunal decided that the doctor’s self employed work started when he arrived at his private clinic, so the travel between his home and the clinic was not a business journey. This was in spite of the fact the doctor had an office at his home where he prepared his treatment plans.

WHAT DOES THIS MEAN FOR YOU IF YOU ARE SELF EMPLOYED AND TRAVEL TO VARIOUS SITES OF WORK?

The taxman will argue that your work only starts when you reach your customer’s site

and any business activity performed at your home office is irrelevant. This would restrict your allowable travel costs to journeys between customers and deny a deduction for travelling from your home to the first customer of the day.

The key is determining where your “place of business” is located, and whether the activity undertaken at the home office is wholly and exclusively undertaken for the purpose of the business. As ever it will come down to the evidence you can produce.

Can you show that the activities you perform at your home must be performed at that location? For example contacting suppliers, drawing up quotes or scrutinising plans. Also can you provide evidence of the time you spend working exclusively on your business at your home, perhaps by records in your business diary?

We can help you record the details the taxman will want to see in order to prove you do start work at home and not when you reach your first customer of the day.



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SME R&D TAX RELIEF INCREASE

The 2014 Budget announced an increase in the rate of Research and Development tax credit for loss making SMEs

HOW MUCH IS IT WORTH AND WHEN DOES IT COME INTO EFFECT?

R&D tax relief

If your company spends money on researching and developing new products or processes, then you should be able to take advantage of the special R&D tax relief. If it's an SME, then it can claim a tax deduction of 225% of its R&D revenue costs e.g. a company that spends £8,000 on R&D will be entitled to claim a deduction of £18,000.

For R&D purposes, an SME is defined as a company with fewer than 500 employees and either:

- an annual turnover not exceeding €100 million; or
- a balance sheet total not exceeding €86 million.

Loss making tax credit increase

However, this will not help you very much if it is a loss making company, so SMEs that have made a loss can claim a cash payment (known as an R&D tax

credit) instead. The rate of tax credit is currently 11% but this is to rise to 14.5% for qualifying R&D expenditure incurred on or after 1 April 2014. This works out as £32.62 (225% x 14.5%) for every £100 you spend on R&D.

The payable tax credit will be 14.5% of the lower of 225% of the qualifying R&D costs and the actual loss for the period (including the R&D tax relief).

This is a very welcome boost to innovative start up companies, many of which are loss making as they establish themselves.

- For the tax calculation, every £100 of cash spend has an extra £125 added to it for the purposes of the tax computation and it is this total figure that the 11% and now 14.5% is applied to. Hence a spend of £100 is enhanced to £225 and at 11% the R&D credit is worth £24.75, increasing to £32.62 at 14.5%.

If this is something that is of interest to you then contact us for more information.



PENSION REFORM - AUTO ENROLMENT

The Seven Steps to Preparing for Auto Enrolment - STEP 4

THE SEVEN STEPS

1. Know Your Staging Date
2. Assess Your Workforce
3. Review Your Pension Arrangements
4. **Communicate the Changes to all your Employees** - *in this issue*
5. Automatically enrol your eligible job holders who are not already active members of a qualifying pension scheme
6. Register with TPR and keep records
7. Contribute to your employees' pensions



IT IS THE EMPLOYERS RESPONSIBILITY TO MAKE SURE THE RIGHT INFORMATION IS PROVIDED TO THE RIGHT INDIVIDUAL ON TIME AND THAT IT IS COMPLETE AND ACCURATE.

SEVEN STEPS TO PREPARE FOR AUTO ENROLMENT

STEP 4

COMMUNICATE THE CHANGES TO ALL YOUR EMPLOYEES

Employers have an obligation to provide all employees, regardless of which category they fall into, with certain specified information within prescribed time limits. There is no specific format that the necessary information should be provided in but there must be a procedure in place to determine these facts as you are required to retain evidence of compliance.

Eligible employees

For those employees being automatically enrolled employers must provide information about automatic enrolment **within one calendar month** of the auto enrolment date. This information should include the contact details of the pension scheme and what it means for them, the value of the contributions that both the employee and employer will be making together with details of their rights to choose to opt out and timescale for the same.

For those employees already members of a qualifying pension scheme with that employer – employers must provide **within two calendar months** of the auto enrolment date information about the changes to the pension scheme together with details of how this will affect them and their rights to choose to opt out.

Non eligible employees

The employer must provide employees with information **within one calendar month** as to their right to opt into an automatic enrolment scheme or how to opt in to pension saving together with the value of contributions the employee and employer will be expected to make and further information about pensions and saving for retirement.

For employees being enrolled after opting in information must be provided about enrolment **within one calendar month** which should highlight what it means for them, contact details of the pension scheme, the value of contributions (both employee and employer) and their right to choose to opt out.

Entitled employees

The employer must inform employees **within one calendar month** of their right to join a pension scheme together with details of the contribution the employee may choose to make (subject to scheme rules) and details for further information about pensions and saving for retirement. The employer is not required to make pension contributions for entitled employees.

Please refer to our previous communication 'Business Update: Pension Reform - Auto Enrolment & NEST' issued in September 2013 (details can also be found on our website <http://www.watsons.co.uk/blog/pension-reform-auto-enrolment-and-nest1>)

KEN\$ATIONAL FUNDRAISING EVENT

Ken Hooker puts on a charity performance at Eastbourne's Sovereign Harbour

Ken Hooker of Proteus Packaging Ltd's fundraising rock alter ego 'Ken\$ational' performed throughout the evening at The Waterfront in Eastbourne on 16 May. He encouraged the audience to 'rock out' to the greatest sounds spanning the last 50 years - "not arf...!" in support of Chestnut Tree House Children's Hospice of Arundel, West Sussex.

Ken said "The evening was a celebration of the fact that all who attended were healthy enough to dance, drink and laugh while remembering those who are unfortunately unable to do so. Our aim was to make people aware of the hospice and raise money to keep the unit going as it costs £3million a year to run and they're only nominally funded by the Government".

Ken raised an amazing £1,609 - a Ken\$ational amount!



CHARITY NIGHT TO REMEMBER

WA ladies pull together to raise funds for Chestnut Tree House Children's Hospice



Pictured: Sarah Wilson, Debbie Sellings, Amanda D'Arcy, Michelle Bettney

By coincidence that same week, on 17 May, four members of the Watson's Team joined forces to also raise funds for Chestnut Tree House Children's Hospice by taking part in the 'Night to Remember' - a ten mile walk at midnight along the Eastbourne coast.

Thankfully the weather was good to them and they completed the walk in 2 hours 53 minutes and raised between them a whopping £1,010 which will go a very long way to supporting the hospice, its patients and their families.

Well done to you all!

Dates for your Diary

6 July 2014	P11D and P11D(b) due
18 July 2014	Due date for Class 1A NICS for 2013/2014
31 July 2014	Second Self Assessment payment on account for 2013/2014
1 October 2014	Due date for payment of Corporation Tax for period ended 31-12-2013
31 October 2014	Last day to file 2014 paper Tax Return
1 January 2015	Due date for payment of Corporation Tax for the period ended 31-3-2014
31 January 2015	First Self Assessment payment on account for 2014/2015
	Capital Gains Tax payment for 2013/2014
	Balancing payment for 2013/2014 Income Tax/Class 4 NICs due
	Last day to file 2014 Tax Return online
2 March 2015	Last day to pay balance of 2013/2014 tax and Class 4 NICs to avoid automatic 5% penalty
March 2015	Budget speech by Chancellor of the Exchequer
31 March 2015	End of Corporation Tax financial year

SEIS, EIS AND VCT CHANGES

How do the changes announced in the 2014 Budget affect you?

In his Budget the Chancellor of the Exchequer announced a number of changes which will affect SEIS (Seed Enterprise Investment Schemes), EIS (Enterprise Investment Schemes) and VCTs (Venture Capital Trusts).

Here we take a look at the changes.

SEIS WILL BE PERMANENT

When the SEIS (Seed Enterprise Investment Scheme) was first introduced, the scheme was only intended to be temporary and was going to stop applying to shares issued after 6 April 2017. However, the Chancellor has now announced that legislation will be introduced in the Finance Bill 2014 to make SEIS permanent. The current Capital Gains Tax 50% relief for reinvesting gains in SEIS shares will also be made permanent.

This will provide more certainty for any early stage companies raising equity and for any individuals wishing to invest in such companies. SEIS will be permanent once the Finance Bill 2014 is given Royal Assent and the permanent CGT reinvestment relief will have effect in relation to reinvested gains accruing to individuals in 2014-15 and subsequent years.

EIS AND VCTs – CHANGES TO SCHEME RULES

The Chancellor has announced that the Government will introduce legislation into the Finance Bill 2014 to:

- prevent companies from benefiting from investment via EIS, SEIS or VCT schemes if they also benefit from DECC Renewable Obligations Certificates or Renewable Heat Incentive subsidies (with effect from Royal Assent to the Finance Bill 2014);
- allow investors to subscribe for VCT shares via nominees (with effect from Royal Assent), as first announced in the Autumn Statement 2013;
- amend the VCT legislation to ensure that,



notwithstanding the general time limits for making assessments to recover tax, HMRC can withdraw tax relief in all cases if VCT shares are disposed of within five years of acquisition (with effect from 6 April 2014);

- restrict individuals' entitlement to VCT income tax relief where investments are conditionally linked in any way to a VCT share buy back or have been made within six months of a disposal of shares in the same VCT (with effect from 6 April 2014); and
- prevent VCTs from returning capital that does not relate to profits on investments within three years of the end of the accounting period in which shares were issued to investors (with effect from 6 April 2014).

SUMMARY OF THE HEADLINE POINTS

- The SEIS is going to be made permanent;
- EIS and VCT rules are going to be changed; and
- Further consultations are expected on EIS and VCTs.

FURTHER CONSULTATION ON EIS AND VCTs

The Government is planning to consult on excluding investment in low risk activities that benefit from income guarantees via Government subsidies from the scheme.

The Chancellor has also announced the Government's intention to launch a wider consultation over Summer 2014 on the need to accommodate investments made by way of convertible loans in EIS and SEIS.



UPLIFT AND EXTENSION OF AIA

Annual Investment Allowance extension welcomed by businesses

The 2014 Budget announced a further temporary uplift and extension of the increased Annual Investment Allowance (AIA) to £500,000 until 31 December 2015. The AIA provides 100% tax relief on qualifying capital expenditure.

The AIA limit was originally temporarily increased for the two years ending 31 December 2014 from £25,000 to £250,000 to encourage businesses to bring forward investment in plant or machinery. This further increase to £500,000 and extension until 31 December 2015 is excellent news for businesses and should be built into capital expenditure plans.

As with previous AIA changes, the key to benefiting fully from this relief is timing. From 1 January 2016 the AIA is expected to fall back to £25,000 per annum and tax relief on capital expenditure in excess of that amount will only be available in the form of much lower capital allowances. To take advantage of this temporary increase, companies therefore need to ensure their capital expenditure is incurred before 31 December 2015. There are also complex transitional rules to determine the amount of relief available where the accounting period straddles the transition dates, so great care is needed with the timing of expenditure.

EXAMPLE

If your company has a financial year ending 31 December 2014, the total available relief will be £437,500 (being 3 months at £250,000 and 9 months at £500,000). However, for spending incurred before 1 April 2014, the relief will be limited to £250,000, the pre 2014 budget limit.

Even though the AIA is an annual allowance, the timing of capital expenditure in any given accounting period may impact on the quantum of AIA available. All businesses should therefore review their capital expenditure plans to ensure that AIA claims are maximised during this period of a £500,000 AIA until 31 December 2015.

OUR VIEW

Whilst the temporary increase in the AIA limit will help all businesses spending in excess of £250,000 on plant and machinery, the most dramatic positive effect will be for many small and medium sized businesses which will be able to offset much or even all of their investment in plant or machinery in the first year.

For further details on the AIA, when capital expenditure is treated as being incurred or the kind of expenditure that can qualify for relief, please do not hesitate to get in touch with us.

