FINANCE DIRECTORS' UPDATE

Bishop Fleming

Accounting update for corporate businesses

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Entrepreneurs' Relief protected

Under new proposals unveiled in the 2018 Spring Statement, from 6 April 2019, shareholders who would otherwise lose valuable Entrepreneurs Relief (ER) will have their tax position safeguarded.

From 6 April 2019, shareholders who would otherwise lose valuable Entrepreneurs Relief (ER) when their percentage interest in a trading company falls below 5% due to the company issuing shares to raise capital on or after that date will have their tax position safeguarded.

ER can reduce Capital Gains Tax on the disposal of shares in a private company on qualifying gains up to £10m, so long as the individual owns at least 5% of the company. However, some company owners have lost their relief where their holding was diluted due to having to raise funds via a share issue to external funders.

Provisions will be included in Finance Bill 2018-19 to allow affected individuals to "bank" their ER before the dilution takes place, with any tax charge deferred until the shares are eventually sold. Draft legislation will be available in the summer.

The mechanics of how this will work have been set out in a new consultation which will close on 15 May.

An Individual will be able to elect to crystallise the gain on their shares immediately prior to their holding being diluted, so they are treated for tax purposes as selling and immediately reacquiring their interest at the then market value.

The individual can then choose to defer the accrued gain on this deemed disposal, so that ER will apply to the deferred gain when they actually come to sell their shares.

The individual will have to have met the conditions for claiming ER at the time of the deemed disposed and buyback, ER only being protected in this way where the shareholding dilution was a consequence of an issue of shares made by the company for genuine commercial reasons.

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VAT & Business Rates

Despite the Spring Statement being a low key affair, there were nevertheless a few business-related consultations published. Perhaps the most important is the government's review of the VAT threshold, which was frozen in the autumn Budget at £85,000 until March 2020.

The government is gathering evidence on the impact of the VAT threshold on small businesses, following on from the Chancellor's suggestion last year that it be substantially reduced from its current level; a figure of £25,000 was suggested at the time to much consternation from non-registered businesses.

The consultation is open until 5 June and includes a survey to make it easier to contribute and should not take many minutes to complete.

There is a need to fundamentally review how VAT works for businesses of all sizes after we leave the EU, so that it works for the UK's benefit as a whole and does not discourage businesses from scaling up.

There are already problems for small firms after last year's freezing of the VAT threshold, with some trying to keep their turnover below the £85,000 level, whilst at the same time battling rising business rates, the National Living Wage and pension auto-enrolment.

A sole trader who is able to trade below the threshold can charge 20% less to a consumer than a VAT-registered competitor, but that sole trader will also suffer VAT on their purchases and other costs.

Where costs are high, it can be worth registering in order to recoup the VAT, though the trader may have to weigh up the advantage of doing this with the extra time spent on VAT administration alongside payroll tasks and pension auto enrolment.

Many business owners fear reaching the "cliff edge" of VAT registration and will do anything they can to stay below it. So the threshold does act as an impediment to growth. And with Making Tax Digital for VAT (MTDfV) starting on 1 April 2019 for VAT-registered businesses, the fear factor increases.

But that is not the whole story, as VAT registration can also mean a trader has achieved a milestone in the growth of the business and has reached a base camp from which further growth is now possible.

Taking professional VAT advice at the right time and particularly ahead of MTDfV can ensure that registration is carried out smoothly and efficiently and avoids the pitfalls and penalties that could otherwise occur later on.

The Chancellor also announced in the Spring Statement that the next revaluation of properties for business rates would be brought forward by one year, with triennial reviews thereafter. Whilst this may help some businesses, there was unfortunately still no hint from the Chancellor of a fundamental root-and-branch reform of the tax.

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Increase in Auto Enrolment pension contributions

As Auto Enrolment pension contributions are set to rise, we look at the implications for workplace pensions for both employers and employees.

Employers will need to take action to update their payroll software or by contacting their payroll provider to make sure the correct contributions are being made, in order to avoid fines from the Pensions Regulator.

The table below indicates the minimum contributions to be paid for defined contribution Auto Enrolment pension schemes, based on earnings of between £5,876 and £45,000 per annum (known as qualifying earnings).

Date effective	Employer minimum contributions	Employee minimum contribution	Total minimum contribution
Up to 5 April 2018	1%	1%	2%
6 April 2018 to 5 April 2019	2%	3%	5%
6 April 2019 onwards	3%	5%	8%

These contributions as highlighted, must increase to at least these levels above from April 2018 and April 2019.

For businesses and organisations who are applying the minimum statutory contributions based on qualifying earnings, the necessary increases that will need to be applied from April 2018 and April 2019 respectively are relatively easy to apply through payroll software or payroll provider.

These statutory increases however must be applied to help avoid potential Pension Regulator fines being levied. Similarly, for those businesses or organisations who have contractual enrolment and qualifying pension schemes with contribution levels in excess of the increases from April 2018 and April 2019, no further action will need to be taken.

For those businesses and organisations who are not applying the minimum statutory contributions based on qualifying earnings where more careful consideration is required.

For example, if the current employee contribution rate is 0% and employer rate is 2% of qualifying earnings, does the employer intend keeping the same scenario in place by increasing the employer rate to 5% from 1 April 2018 to ensure compliance, or does the employer intend for the employee to start contributing from this point?

Either way, if the payroll is processed in-house, businesses and organisations will need to apply increases to at least the statutory minimum level from April 2018 and 2019. If the payroll is outsourced, they will need to engage with their payroll service provider to confirm what should be applied from these dates to ensure compliance.

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Making Tax Digital for VAT less than 12 months away

The first stage of Making Tax Digital (MTD) will apply to all VAT registered businesses who are over the VAT turnover threshold (frozen at £85,000 until March 2020).

From the first VAT return which starts after 1 April 2019 businesses will need to keep their records digitally and send their VAT returns to HM Revenue & Customs (HMRC) using API (Application Programming Interface).

The VAT return box 9 format will remain the same, as will VAT return frequency and payment dates, but it is important to remember that the implementation date is very close to 29 March 2019, the date when the UK is due to leave the EU, which may have other implications for the way in which businesses account for VAT, particularly on international transactions.

Businesses can sign up to take part in a MTD pilot exercise from 1 April 2018. There are benefits in taking part in the pilot, such as being ahead of the game, access to more support, being kept up to date on how the system is developing, an opportunity to influence the look and feel of the final version, and quick feedback on how you are getting on with the submissions.

All affected businesses will need to make sure that by 1 April 2019 they are able to keep their records digitally in a system which is able to submit returns to HMRC using API.

Many businesses use spreadsheets rather than an accounting software package to keep their records and prepare their VAT returns. A Spreadsheet alone will not be able to submit a return using API, so additional software will be needed to meet the MTD requirements.

Some businesses may use a number of different systems to prepare VAT returns, especially VAT groups which include a number of companies using different systems; and some will need to carry out additional calculations for their VAT returns (such as retailers and partly exempt businesses). In these cases HMRC say that all links between packages must be digital, and any spreadsheets which are used to calculate VAT liabilities must be linked to another software product which can send data to HMRC digitally.

HMRC has clarified that businesses using spreadsheets can take part in the pilot, but the volunteer must ensure the data taken from the spreadsheet and sent through the new API requires no rekeying.

HMRC will use a "light touch" with regard to penalties for incorrect record keeping during the first year of MTD to give businesses time to update their systems, but it will be important for all affected businesses to review their systems well in advance of 1 April 2019 in case significant changes are required.

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R&D Tax Claims - all expenses paid?

R&D tax claims are potentially even more attractive following a relaxation of the rules by the tax office on employee expense claims.

A company can claim enhanced deductions against its taxable profits for expenditure which is qualifying R&D (Research & Development) expenditure. But back in October 2014, HM Revenue and Customs (HMRC) said that reimbursed expenses could not be included as part of qualifying staff costs for an R&D tax claim. It has now reversed that decision.

HMRC is now allowing amendments to be made to previously submitted R&D tax claims to include reimbursed expenses for accounting periods ended after 9 October 2012, provided the original R&D tax claim was made after 9 October 2014.

Where an amendment is outside of the usual amendment window, HMRC said the amendment had to be made by 31 January 2018. However, it has now extended the deadline to 30 April 2018.

Reimbursed expenses include business expenses an employee has incurred personally which have been reimbursed by the company. It does not include those expenses paid on a company credit card.

The expenses must be incurred in actually carrying out duties of the employment and personal to that employee, such as travel and subsistence to a temporary workplace, but not the cost of training or purchasing an item on behalf of the business for example.

In some cases, the amount at stake may be quite small and not worth claiming, but there will be many cases where a sizeable retrospective claim could be made in order to achieve a worthwhile tax saving.

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New Managing Partner

Andrew Sandiford has been appointed as the new Managing Partner of Bishop Fleming as part of planned enhancements to the management structure of the business.

The changes, which include a newly constituted Management Board, came into effect on 1st January 2018. Andrew (pictured left), a partner in Bishop Fleming's Bath office and Head of its Corporate and Business Services group, takes over from Matthew Lee who previously held the position since 2001.

Ian Smith (pictured right), Chair, commented: "As we enter 2018, the restructuring of our management team is an important step for a firm of our size and ambition. I'd like to thank Matthew for his years of leadership, during which we have doubled in size, quadrupled our turnover and extended the reach of our work both nationally and internationally. Matthew's track record certainly provides a great launch pad for the future."

Matthew Lee said: "I am proud to have led Bishop Fleming for the last 16 years and of our achievements – particularly our 'Excellent' rating with Investors in Customers and our place in the Sunday Times Top 100 Companies to Work For rankings. I am pleased to hand over the reins to Andrew who will further drive our business forward."

Andrew Sandiford commented: "We are entering an exciting new phase for Bishop Fleming and I am delighted to be taking up this position as we look to build on our growth and achievements."

He added: "Our commitment to client service excellence will ensure the continuation of our outstanding rate of growth and client satisfaction. There is much work to do as our industry faces the challenges presented by the unprecedented economic and political situation, but I am confident we are well placed to continue to thrive in these promising times."

Bishop Fleming is a leading provider of accounting, tax and business consultancy in the UK having recently secured a place in the UK Top 30 of the Accountancy Age league table, as well as winning 'Large Practice of the Year' at the 2017 Practice Excellence Awards.

Bishop Fleming is a Sunday Times 'Top 100 Best Company'

Bishop Fleming is celebrating a significant leap up the prestigious Sunday Times Top 100 Best Companies to Work For list after being ranked 26th in 2018, and the highest professional services firm in the South West.

The rise up the list this year follows a coveted three star accreditation in the annual Best Companies survey, up from two stars in 2017. This rating reflects 'extraordinary' levels of workplace engagement and represents organisations that truly excel.

Ian Smith, Chair of Bishop Fleming, commented: "Our 16-place rise in our ranking is fantastic news for the firm, and is a clear reflection of the hard work that we put in to making sure our business remains a great place to work. We are committed to recruiting the best people and then helping them to grow and this is reflected in our continuous improvement up the rankings over the last three years."

He added: "The fact that the Sunday Times top ranking reflects what our own people think of us as an employer is one of the accolades I am most proud of. Nearly 90% of our people participated in the survey – a fantastic level of engagement."

Andrew Sandiford, Managing Partner at Bishop Fleming commented: "We have always maintained a culture that is focussed on our people. We ensure there is positive team culture with a family spirit, and our working environment ensures that every person has the opportunity to achieve his or her fullest potential. We invest heavily in personal training and development, and this enables us to deliver the best team for our clients' needs".

THE SUNDAY TIMES 100 BEST COMPANIES TO WORK FOR 2018

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