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Money Matters

Keeping adequate business records – and surviving an HMRC check

Keeping adequate business records plays a key role in effectively monitoring the performance of your business, as well as ensuring that you comply with the requirements of HM Revenue & Customs (HMRC).

What are 'adequate records'?

Legislation requires businesses to keep all such records as may be required for the purposes of making a complete and accurate tax return. While the exact records required will depend on the nature of your business, at the very minimum it will entail keeping a record of all money travelling 'in' and 'out' of the business. All businesses will need to keep records of sales and takings, purchases and expenses. Examples of other details that you may need or want to keep include:

- ✔ cash book and petty cash book
- ✔ hire purchase and leasing details
- ✔ sales and purchase ledger
- ✔ inventory of stock at the accounting year end
- ✔ wages book
- ✔ bank and building society statements, paying in books and cheque books
- ✔ invoices and receipts issued and received
- ✔ credit card statements
- ✔ electronic records of sales and till rolls
- ✔ details of money taken out of the business for personal use
- ✔ details of incidental or miscellaneous income
- ✔ details of any money introduced into the business

The records should also be sufficient to enable revenue and capital expenditure to be correctly identified so that capital allowances can be claimed.

However, the importance of your business records goes beyond the requirements of completing your tax return – we can use the records to analyse and discuss key areas of your business, as well as its overall performance.

The new Business Records Checks

To address the issue of poor record keeping and the associated loss of tax, HMRC launched a pilot programme of Business Records Checks in April 2011. The programme was suspended in February 2012 following a review, and the revamped system has now come into effect.

Under HMRC's revised approach, in the event that a business is suspected of having inadequate records the first point of contact from HMRC will be a letter, followed by a telephone call. During the call, the HMRC officer will ask a series of questions designed to determine whether adequate records are being kept. If deemed necessary, the officer will either refer the firm to the Business Education and Support Team, or arrange for a face-to-face visit.

During a visit, the officer will require an explanation of how the business is run and how records are kept, and will check a sample of the business records. Where appropriate, the business will be told what improvements need to be made, and a follow-up visit arranged to check that this has happened. If the records remain inadequate, HMRC has the power to levy a penalty. This will usually be £500 for a first offence, although it is reduced to £250 if the business is in the first year of trading.

Keeping full and accurate records makes good business sense. We can help with all of your record keeping requirements, and can liaise with HMRC on your behalf – please contact us for further details.

Inside this Issue...

Time to avoid a penalty?

HMRC has published guidance on the penalties for filing late and inaccurate returns, for employers operating PAYE via Real Time Information (RTI).

Under the new RTI regime, by April 2013 almost all employers and pension providers must be reporting information to HMRC about the payments and deductions they have made under PAYE, *at or before the time of payment.*

HMRC has now confirmed that for the tax years 2012/13 and 2013/14 there will be no change to the existing penalties for late filing of returns, and there will be no penalties for in-year Full Payment Submissions (FPSs) that are submitted late. However, penalties may be charged after the end of the tax year, based on the final FPS for the year.

Employers must submit an FPS every time they make a payment to an employee. To avoid a late filing penalty, if they still have information the final FPS for an employee must be submitted by 19 April. After 19 April, employers can submit an Earlier Year Update by 19 May to avoid a penalty.

Employers who do not pay any employees in a tax month must send an Employer Payment Summary by the 19th of the following tax month.

Meanwhile, for 2012/13 penalties will not be applied for inaccuracies found within the in-year FPS. However, they may be charged after the end of the tax year based on the final FPS for the year.

Penalties may also apply for inaccuracies found within the in-year returns for the 2013/14 tax year, using the existing criteria.

From April 2014, late payment penalties will be charged automatically.

We can help with your PAYE needs, including the new RTI requirements – please contact us for further advice and assistance.

New rights on parental leave and flexible working

The Government has been looking at a range of ways to create 'more flexible workplaces', including the introduction of a new system of parental leave from 2015.

A new system of shared leave

From 2015 new parents will be able to 'mix and match' their leave, taking leave in turns or at the same time, as long as the total amount of leave taken does not exceed 52 weeks.

While women will have to take an initial two weeks of leave following the birth (four weeks in the case of manual workers), from that point on parents can opt to share the remaining time off as flexible parental leave. It will be up to both parents to decide how they share the remaining weeks of the leave.

The rights will be offered to parents of adopted children as well as biological parents, providing they satisfy the qualifying criteria.

> "From 2015 new parents will be able to mix and match their leave"

A new statutory payment for parents on flexible parental leave will apply, and parents and employers will agree the exact pattern of leave between them. The intention is for flexible parental leave to be taken in a minimum of one-week blocks.

If either parent does not intend to take their allocation in a single block, they will need to agree the leave pattern with their employer. Current Government guidance stipulates that where an employer and employee are unable to agree on a leave pattern, the leave would default to a single block beginning on a date specified by the employee. This leave is subject to a limit of 50 weeks in total and 37 weeks' statutory pay.

New fathers are currently entitled to take up to 26 weeks' additional paternity leave beginning after the baby is 20 weeks old. The entitlement applies to fathers of children due or matched for adoption on or after 3 April 2011. However, the leave can only be taken as a single block, once the mother or co-adopter has returned to work before the end of their allowed maternity leave period.

Paternity leave

Paid paternity leave will remain at the current level of two weeks, although this will be reviewed in 2018. A new right will be introduced to allow fathers, and partners of pregnant women, to take unpaid time off work to attend two antenatal appointments with their pregnant partner.

Flexible working

The right to request flexible working will also be extended to all employees by 2014, with the aim of supporting modern families and boosting the UK labour market by providing more diverse working arrangements.

The statutory procedure for considering requests for flexible working will be replaced with a duty to consider all requests in a 'reasonable manner'.

Under the existing 'right to request' system, parents and some carers have a statutory right to request flexible working arrangements, such as working from home, or working reduced or compressed hours.

Unpaid leave

In addition, from March 2013, the Government will increase unpaid parental leave from 13 to 18 weeks in order to comply with the revised EU parental leave directive. In 2015, it will increase the current children's age limit on parental leave, giving each parent the right to up to 18 weeks' unpaid parental leave for each child aged under 18.

Note: This article is based on our current understanding of existing guidance. The Government is intending to consult fully during 2013 on the detail of how the new shared leave system will be administered.

Taxing changes: what's on the horizon?

As Spring approaches, many individuals will be wondering what lies in store for the 2013/14 tax year and beyond, particularly in light of the raft of measures unveiled in the Chancellor's 2012 Autumn Statement. Here we provide a summary of some of the key tax changes on the horizon, along with some handy tax planning hints and tips.

Increase in the personal allowance

In the 2012 Budget it was announced that the tax-free personal allowance for 2013/14 would rise to £9,205. In the 2012 Autumn Statement this was increased by an extra £235 to £9,440.

The basic rate limit for income tax will be adjusted such that the higher rate threshold above which individuals pay income tax at 40% increases by 1% in 2014/15 and 1% in 2015/16. For 2013/14, the higher rate threshold will be £32,010, decreasing from the current £34,370.

Meanwhile, the age-related personal allowances will not be increased and their availability will be restricted to people born on or before 5 April 1948:

born 6 April 1938 – 5 April 1948	£10,500
born before 6 April 1938	£10,660

TIP: Maximise personal allowances

If your spouse or partner has little or no income, you might want to consider transferring income (or income-producing assets) to them to ensure that they are able to make full use of their personal allowances. Please contact us before taking action as we will need to consider the wider implications for you and your family.

Additional income tax rate falls to 45%

From 6 April 2013 the additional rate of income tax, which is levied on those with incomes over £150,000, is set to fall from 50% to 45%. Consequently, the dividend additional tax rate will be reduced in line with this from 42.5% to 37.5% and trust rates will mirror these changes.

TIP: Reduce tax rates across the family

While the 50% rate may be falling, it is always advisable to review tax rates across the family to ensure that you are making the most of tax-free opportunities and keeping marginal tax rates as low as possible. For example, it is costly for one spouse or civil partner to be paying tax at 40% or even 45% while the other pays tax at only 20%. Talk to us for strategies tailored to your individual circumstances.

Corporation tax rates lowered

The main rate of corporation tax will be reduced from 24% to 23% for the financial year commencing 1 April 2013. In his Autumn Statement, the Chancellor also revealed that from 1 April 2014 the main rate of corporation tax will be reduced to 21%. This is a greater reduction than previously announced in the 2012 Budget, which intended a rate of 22% from 1 April 2014.

TIP: Consider the timing of expenditure

By incurring expenses shortly before the year end rather than after, relief is obtained 12 months earlier. With the main rate of corporation tax set to fall further over the coming years, incurring expenses earlier may also provide relief at a higher rate.

Company car tax rates

At the time of the Autumn Statement, HMRC revealed that the car fuel benefit charge multiplier will rise from £20,200 in 2012/13 to £21,100 in 2013/14. Meanwhile, the van fuel benefit charge is also set to increase from £550 to £564 from 2013/14.

TIP: Time to review your company car policy?

With our help, you can determine whether the company car is still a tax-efficient option or whether a qualifying 'van' might be an alternative. It may also be worth reviewing the company car policy completely, as it could prove more beneficial to pay employees for business mileage in their own vehicles, at the statutory mileage rates.

And from 2014/15 ... pensions tax relief reduced

Following widespread speculation, the Autumn Statement confirmed the Government's plans to cut pensions tax relief. In the event, the Chancellor revealed that the annual allowance will be reduced to £40,000 with effect from 6 April 2014. In addition, the lifetime allowance will be lowered to £1.25 million with effect from 2014/15.

These are just some of the changes coming into effect. For further information or to discuss how the above changes may affect your financial planning, please contact us.

New savings limits from 2013/14

In the 2012 Autumn Statement, the Chancellor announced that the annual contribution limit for Individual Savings Accounts (ISAs) will rise from £11,280 in 2012/13 to £11,520 in 2013/14, representing a 2.1% increase. The cash element will increase from £5,640 to £5,760.

The Junior ISA subscription limit and the Child Trust Fund annual subscription limit will also increase, climbing from £3,600 to £3,720 in 2013/14.

The Government is also consulting on expanding the list of Qualifying Investments for stocks and shares ISAs, to include shares traded on small and medium enterprises equity markets such as the Alternative Investment Market and comparable markets.

Please contact us to discover how we can help you plan to maximise your personal wealth.

Business Round-Up

Capital allowance relief temporarily increased

The Annual Investment Allowance limit (AIA) has been increased for a two-year period from £25,000 to £250,000 per annum for all qualifying investments in plant and machinery made on or after 1 January 2013.

Capital allowances take the place of commercial depreciation, allowing businesses to write off the cost of certain capital assets against their taxable income.

The new limit was announced in the 2012 Autumn Statement, with the stated aim of helping to stimulate capital investment and boost UK competitiveness. The change represents the latest in a series of amendments to the AIA, with the limit having previously been doubled from £50,000 to £100,000 in 2010, only to be cut to £25,000 in April 2012.

If you are looking to upgrade your equipment, the temporary increase in the AIA could mean significant savings for your business. For more advice and information on maximising the tax benefits of investing in plant and machinery, please contact us.

Government unveils new 'shares for rights' scheme

The Government recently confirmed its plans to introduce a new employee shareholder status, through which employees can exchange some of their existing employment rights in return for the right to own shares in the business.

Under the scheme, owner-employees will be offered a minimum of £2,000 in shares, free of capital gains tax, in return for giving up selected employment rights, including rights relating to unfair dismissal, redundancy, flexible working and time off for training.

Legislation being introduced from April 2013 will exempt gains on up to £50,000 of shares acquired by employees taking up the new employee shareholder status.

While employee owner contracts would be optional for existing employees, businesses could choose to offer only this type of contract when taking on new staff, although they would have the flexibility to build more generous employment conditions into their contracts should they wish to do so.

The Government is considering ways to reduce the income tax and national insurance liabilities that arise when employee shareholders receive the shares, including the option of deeming that shareholders have paid £2,000 for the shares they receive, rendering the first £2,000 of shares free of income tax and national insurance contributions.

Simplified income tax scheme for smallest businesses

With effect from the 2013/14 tax year, a new voluntary cash basis will be introduced for small unincorporated businesses, together with simplified arrangements for some business expenses.

The new cash basis will allow eligible self-employed individuals and partnerships with annual receipts of up to the current VAT threshold of £77,000 to calculate their profits on the basis of the cash that passes through their business. They can stay in the scheme for as long as their turnover remains below £154,000.

Businesses in the scheme will generally not need to distinguish between revenue and capital expenditure. In addition, all unincorporated businesses will be able to choose to deduct certain expenses on a flat rate basis.

For advice and assistance with all of your tax planning needs, please contact us today.

Web Watch

Essential sites for business owners

www.gov.uk
The new centralised website for government information and services.

www.redtapechallenge.cabinetoffice.gov.uk
Business regulation forum inviting contributions from business owners.

www.smeweb.com
Online resource for small and medium-sized enterprises.

www.smallbusiness.co.uk
Information and advice for start-ups and SMEs.

Reminders for your Spring Diary

March

2 Last day to pay any balance of 2011/12 tax and Class 4 NICs to avoid an automatic 5% late payment penalty.

31 End of Corporation Tax financial year.

End of CT61 quarterly period.

Filing date for Company Tax Return Form CT600 for the period ended 31 March 2012.

April

5 Last day of 2012/13 tax year.

Deadline for 2012/13 ISA investments.

Last day to make disposals using the 2012/13 CGT exemption.

14 Due date for income tax for the CT61 period to 31 March 2013.

19/22 Quarter 4 2012/13 PAYE remittance due.

20 Interest will begin to accrue on unpaid PAYE/NI for 2012/13.

30 Normal annual adjustment for VAT partial exemption calculations (monthly returns).

May

1 Start of daily penalties for 2012 online Tax Return not yet filed. Additional penalties may apply for further delay.

3 Submission date of P46 (Car) for quarter to 5 April.

19 Last day for filing forms P14, P35, P38 and P38A – 2012/13 PAYE returns – without incurring penalties.

31 Last day to issue 2012/13 P60s to employees.