RLKAccountancy
Chartered Management Accountants, ACMA, CGMA

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Make it count

Your quarterly newsletter from RLK Accountancy

Autumn 2017

Welcome!

Welcome to our quarterly update. This quarter we have tried to focus on the nuts and bolts of how to keep on top of your finances and stay up to date with the latest tips.

Technology is constantly evolving and this is no different in the accounting and finance industries. In this issue, we look at both commercial and HMRC technology advances ahead of Making Tax Digital (MTD) – the impact this could have on you, and how it could assist you with the day-to-day running of your business. We are strong believers in planning ahead for such events, so even with the delays in the HMRC implementation of the MTD project we can help you prepare in advance to avoid nasty surprises!

With the next holiday season always round the corner, we also look at whether the property you let could qualify as a Furnished Holiday Let to benefit from tax savings available.

Please feel free to contact us for advice on your own specific circumstances.
Rachel Kowalski

INSIDE

Making Tax Digital

The government wants to simplify the tax system and help individuals and businesses to keep on top of their affairs. But what impact will this have on your business?

Making Tax Digital (MTD) will require taxpayers to keep timely digital records of all business transactions and these will be sent directly to HMRC on a quarterly basis. It will be introduced in phases – from April 2019, VAT registered businesses will have to meet the new requirements for VAT. For all other taxes, the earliest requirements will be April 2020.

Making Tax Digital will help businesses get their tax right first time,' said Jim Harra, director general of customer strategy and tax design at HMRC. 'It will help reduce the likelihood of errors, lower the chance of compliance checks and give them greater certainty that they are getting things right.'

It should be a breath of fresh air, as you will no longer have to provide HMRC with the information that they already have on record – date of birth, NI number, taxed earnings for the year, savings interest, etc. Just imagine not having to root around for all those numbers each year!

It will also mean you don't have to wait until the end of the tax year to understand your tax position, as it will be a live system just like online banking. This should mean the end of hefty over or under payments at the end of the tax year and help you to plan for any tax bills.

Personalised tax accounts already exist for businesses and individuals. Log into your business or personal tax account through the Government Gateway and you will see a dashboard of all relevant taxes.

Remember that from September 2017, HMRC will make it a requirement for all businesses using their online tax accounts to register for two-step verifications to improve the security of your account. This will require you to enter a code sent directly to a mobile of your choice to log in.

To summarise: if you are VAT registered you will need to comply with MTD from April 2019; other taxes will be included in a phased programme, no earlier than April 2020.

It is, however, worth creating the right habits sooner rather than later and exploring digital systems through commercial software providers.

Speak to us for advice on the best commercial software for you and see the 'Cloud Accounting' article on page 3.

Keep your cash flow on track

These top tips will help to take the stress out of money management

Losing track of your business finances can really keep you awake at night. What will happen if our largest customer doesn't pay on time? Will we be able to pay our bills? Are we really making a profit at all?

If you find yourself running your business bank account down to £0, or worse, to an overdraft each month, it is time to review your cashflow.

Here are some top tips to help you keep it in check:

1. **Put a simple record keeping system in place.** Taking the time to establish a record keeping system by month with the appropriate cash in/cash out summaries available will turn the 'what ifs' into fact that you can make decisions from.
2. **Be disciplined.** Whether it is spreadsheet, software or cloud based, you need to be tracking your income and expenditure at least every other day. Take a few moments to look at the numbers before you start your business day, so that you don't get thrown off track.
3. **Take action.** Keep track of customers that owe you money and chase them if they are not on time. Have strict criteria for offering credit terms to customers – and maybe offer an early settlement discount if they can pay early. Or could you consider debt factoring (selling your invoices to a third party)?
4. **Review suppliers too.** If you are constantly finding you can't pay suppliers on time, think about negotiating better terms or switching to a supplier who is willing to offer better terms.
5. **Review your costs.** Are you really getting the best deal you can? Do you really need that extra office space? Think about retendering longstanding contracts (including utilities).
6. **Forecast, forecast, forecast.** Review your yearly or three-yearly projection at least once a quarter. Keep it simple: money in, money out, by month. Getting this down on one page will help you identify any risk areas quickly.
7. **Contingency plan!** Keep an emergency fund in the forecast for anything unexpected.
8. **Scrutinise regularly.** Question any amounts that weren't forecast and if you are repeatedly having to spend from the emergency budget, get together and question why!

If you are finding you don't have time to keep on top of your finances, speak to us about how we could assist, from basic book keeping to cashflow projections.

Take VAT!

The VAT Flat Rate Scheme should make things a whole lot simpler for smaller businesses

The VAT Flat Rate scheme simplifies business record keeping and VAT calculations for businesses with a turnover of less than £150,000. The usual way of calculating VAT when not on this scheme is deducting the VAT on purchases from VAT on sales.

However, under the Flat Rate Scheme you simply multiply the percentage for your sector by the sales price including VAT. For example, 14.5% for IT consultancies multiplied by a sales price of £1,200 including VAT would be £174.

From 1 April 2017, there are changes to the VAT flat rate scheme for those who spend very little on goods, which will mainly impact service firms. HMRC has labelled these firms 'Limited Cost Traders' and if your cost of goods is either less than 2% of sales or less than £1,000 this will affect you.

Limited Cost Traders can still use the Flat Rate Scheme, but at a percentage of 16.5% instead of their industry specific rate. So, for the IT example, the VAT payable to HMRC would now be £198 (16.5% x £1200).

See VAT notice 733 for more details: https://www.gov.uk/government/publications/vat-notice-733-flat-rate-scheme-for-small-businesses.

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All in the cloud

Cloud-based software is the way ahead for accounting. What does it offer – and should we trust it?

You may have heard of data storage systems such as Dropbox and Google Drive where you can file share 'in the cloud'. The cloud isn't limited to file storage though. According to Receipt Bank, 'Accountex predicts that by the end of 2017, more than 90% of small and medium-sized businesses will be using cloud accounting software.'

Many businesses now subscribe to the cloud-based software companies such as Xero, QuickBooks, Kashflow, Freeagent and Freshbooks, but what's all the fuss about?

You can even submit VAT returns and payroll directly to HMRC as the systems talk to each other (can you imagine the conversations they have)?

Using cloud-based software, your accounts can be accessed at any time from any device and the information is in real time to be shared between client and accountant.

No more logging on to the dusty old computer, 'the one with the software on it'. No more mislaying receipts and invoices. They can be scanned and uploaded directly onto the system against the correct transaction, so no fire or single computer failure is such a risk.

No more uploading bank statements. Direct bank feeds mean that your bank transactions flow directly into the software. No more offline invoicing. You can scrap the Excel sheets and send your invoices direct from the system, avoiding further manual accounting entries. You can even set up auto reminders to late payers, to reduce time spent chasing.

The online software allows you to automate data input and analysis and performs calculations that you would otherwise perform offline. For example, some systems can pull together your VAT return with a detailed audit report of the items making up input and output VAT. You can even submit VAT returns and payroll directly to HMRC as the systems talk to each other (can you imagine the conversations they have)?

Yet some may not trust the security of the cloud. Whichever system you pick, it is worth reading the terms and conditions to understand what would happen to your data if the supplier goes bust and how they ensure the security of their servers.

Most commercial providers will transfer your data from your existing system for free. They will also provide ongoing service desk support as part of the cost of the software.

Contact us if you need help setting up a cloud-based system.

GOING IT ALONE

So, you've come up with a great business idea and chosen your legal status as self-employed, but what do you need to do to get your accounting system started?

1. **SET UP AN HMRC GOVERNMENT GATEWAY ACCOUNT AND REGISTER AS SELF-EMPLOYED.** You won't be able to file your return without a ten-digit UTR (Unique Taxpayer Reference) that you only get by registering.
2. **REGISTER FOR ONLINE SERVICES.** This gives you until 31 Jan to complete your return. According to HMRC, 89% of those people submitting returns last year opted to do so online.
3. **KEEP IT SIMPLE.** In terms of the record-keeping for your new business, it is best to keep a separate tab in a file for each month which includes:
   - *a business bank statement. It is preferable to have two separate bank accounts for your business – one for invoices and receipts and one to save tax in for year end.*
   - *a copy of any invoices that you have issued.*
   - *a copy of any receipts for business running costs and capital items (for example, do you need to fit out a home office or buy a new computer?).*

Make sure you are aware of what 'allowable expenses' refer to and contact us if unsure. As a simple rule, remember that you can't deduct costs for non-business or personal purposes, or for buying or improving fixed assets that last for several years. For example, you can claim branded uniforms or clothing but not ordinary clothes, or you could claim repairs to business premises, but not the cost of improving them.

When it comes to car costs, you can either keep petrol receipts etc or you can fill in a mileage log to record how many miles you do for each business trip (claim 45p per mile for the first 10,000 miles; 25p per mile thereafter).

It is important to make sure that you are ready in plenty of time so that you don't miss the deadline. There are penalties for late filing that start from £100 and increase over time past the deadline.

If you need any help getting started, contact us to talk you through the process.

Room for extra income

Could your property qualify as a furnished holiday let? Read our checklist

Classifying a property letting as a 'furnished holiday let' is appealing from a tax perspective. This is due to benefiting from several tax advantages by being treated as a trading rather than an investment business. So, does your holiday let meet the criteria below?

1. **If you let a fully furnished property with the intention of making a profit in the UK or the European Economic Area (EEA), this can qualify as a furnished holiday let. Any furnished holiday lets in the UK can be grouped together as one business, as can any furnished holiday lets in the EEA. These would be two distinct businesses with separate records and separate profits/losses.**

2. **You must let the property to the public for at least 105 days of the tax year from 6 April to 5 April. You do not count any days where the property was let out to free to a friend or relative, used by yourself or where the let is more than 31 days, except in a few exceptional circumstances. If you don't meet this, you can talk to us about how the averaging election or period of grace election can help you meet the criteria.**
3. **If the total of all lettings exceeding 31 days amounts to more than 155 days of the year, your property will not be a FHL for that year.**
4. **Your property should be available for letting for at least 210 days of the year.**

Classifying a property letting as a 'furnished holiday let' can result in several tax advantages.

If you no longer meet the FHL criteria, or the property is sold, the special tax treatment will no longer apply and you will need to work out any balancing allowance or balancing charge for capital allowances.

If a FHL is operated by a husband and wife partnership the profits can be allocated in any proportion required – irrespective of their actual shares in the ownership of the FHL property. For an ordinary property letting business the profit shares must be divided according to the actual property ownership shares, in the absence of evidence of the ownership shares the profits are divided equally.

If you want to claim Foreign Tax Credit Relief for any foreign tax paid, you should complete the section headed *Foreign tax paid on employment, self-employment and other income* in the self-assessment form. If you let qualifying holiday accommodation in the EEA see *Helpsheet 253: Furnished holiday lettings* for more information, or contact us.

KEY PAYMENT DATES FOR YOUR CALENDAR

31-Oct-17
2017/18 Self-assessment tax return (SATR)
Last filing date – self-assessment paper version

30-Dec-17
Self-assessment online if outstanding tax to be included in 2018/19 PAYE code

31-Jan-18
Last filing date – self-assessment online
VAT
Check your company's payment deadlines here: https://www.gov.uk/vat-payment-deadlines

31-Jan-18
Income tax and national insurance contributions
2016/17 balancing payment, and 2017/18 first payment on account

31-Jan-18
Capital gains tax
2016/17 capital gains tax

19-Jul-18
Class 1A NICs
2017/18 payment due

Corporation tax
Nine months and one day after the end of the accounting period (or by quarterly instalments if large company)

Inheritance tax
Six months after the end of the month of death

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