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## Business Matters

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## Handling late payments

With government research indicating that one third of payments to small businesses are late, we take a look at the latest initiatives designed to encourage prompt payment.

### The Small Business Commissioner

The government estimates that 20% of small businesses in the UK have encountered cashflow issues as a direct result of late payments. Were small businesses to be paid on time, it is thought that around an extra £2.5 billion could be channelled into the UK economy annually.

In late 2017, the government launched its new Small Business Commissioner service, with the stated aim of helping the UK's 5.7 million small businesses to get paid on time. The complaint handling service is managed by the new Small Business Commissioner, Paul Uppal, and seeks to resolve disputes relating to unfair payment practices and late payments. The Small Business Commissioner's website offers guidance and advice to firms on payment issues, and suggests suitable courses of action to take in the event that a payment becomes overdue.

It also provides businesses with a tool to check whether the correct information has been supplied to the correct person in order for an invoice to be paid on time, or to chase when a payment is overdue. The website can be accessed here: [www.smallbusinesscommissioner.gov.uk](http://www.smallbusinesscommissioner.gov.uk).

### Payment practices and performance reporting

In January 2017, the government published guidance on the statutory reporting requirements for companies and limited liability partnerships (LLPs).

Under the Small Business, Enterprise and Employment Act 2015, the UK's largest companies and LLPs are required to report their payment practices, policies and performance on a half-yearly basis. The data must be published via an online government service, and be made available to the public. Businesses which fail to comply can be prosecuted.

Under the government's new payment reporting practices, only businesses with an annual turnover of £36 million or more, a balance sheet total of £18 million, or those with 250 employees or more are required to report. Businesses which fall under this remit must publish information about their payment practices, including the average number of days taken to make payments, for each reporting period in the financial year. The majority of firms required to report will have begun doing so in 2018.

### The Prompt Payment Code

The Chartered Institute of Credit Management's Prompt Payment Code (PPC) outlines the minimum standards for payment practices, and requires its signatories to commit to paying their invoices within a maximum of 60 days, and work towards adopting 30 days as the norm.

Large businesses which sign up to the PPC must ensure that their suppliers are paid on time every time, and within the terms as set out in their contract, without attempting to change the payment terms retrospectively.

**We can offer expert advice on managing your finances and improving cashflow. Contact us for assistance.**



# Running your business as a company

The question of whether to run a business as a limited company is a major decision. Here we look at some of the key areas to consider.

## Tax implications

### Income tax vs corporation tax

For limited companies, it is the company and not the director-shareholder that pays tax. The current rate for corporation tax is 19%, meaning that the tax due on profits made within a company will be less than the income tax paid by a sole trader or partner with the same profit figure. However, the profits of a company may be subject to income tax and national insurance contributions (NICs) when they are extracted by the director-shareholder.

### Extracting profits

Many director-shareholders take a basic salary from the company, and extract profits by way of dividends. If they receive any form of cash remuneration, these are taxed as employment income. Such income is liable to income tax in the normal way.

Director-shareholder salary is tax deductible for corporation tax purposes. Uneven patterns of earnings, which could mean a spike in a tax bill for a sole trader, can be evened out by adjusting director remuneration.

### National insurance contributions

Employment income attracts Class 1 NICs, for which both the director-shareholder and the company may be liable. Though employees are not liable to NICs on most benefits, Class 1A is generally due from the employer at 13.8%.

Director-shareholders have considerable flexibility when it comes to NICs. It may be possible to take a small salary of up to the threshold at which NICs are payable (£8,424 in 2018/19), and take the balance of post-tax profits as dividends. Earnings above the Lower Earnings Limit (£6,032 in 2018/19) are deemed subject to NICs at 0%, so paying a salary above this level will accrue entitlement to certain state benefits, even though no NICs are actually paid.

### Dividends

Dividends have their own distinct tax treatment and are not liable to NICs. When combined with the

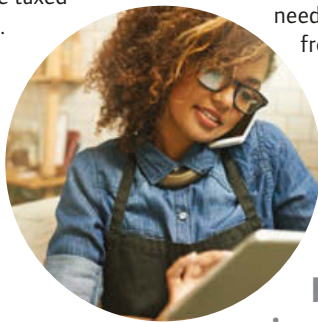
Dividend Allowance, which taxes the first £2,000 of dividends at 0% (for 2018/19), dividends can produce a favourable outcome for the taxpayer. But remember that dividends are paid out of taxed profits, meaning that corporation tax also needs to be factored in.

### Pension provision

A company may be able to make contributions into a registered pension scheme, subject to certain limits. Appropriate care is needed, and pension contributions must be paid 'wholly and exclusively' for the purposes of the trade in order to be deductible. For sole traders and partners, pension contributions would be considered a private expense.

### Leaving profits in the company

Where director-shareholders do not need to extract all the profits from the company to meet current expenditure, profits can be left in the company, opening up further future planning possibilities.



## Additional benefits of incorporation

Some other benefits of incorporation might include obtaining limited liability, as well as additional credibility. A company is a separate legal entity from its shareholders. It can own property, sue and be sued. In terms of borrowing, limited company status can allow a bank to take additional security by means of a 'floating charge' over the assets of the company.

## Additional responsibilities

Incorporation brings additional administrative responsibilities, which can lead to higher annual compliance costs. Company directors also have certain statutory responsibilities, and as such, they may be at risk of criminal or civil penalty proceedings for non-compliance. Business owners should consider the legal and administrative implications, together with their associated costs, before making any decisions.

**We can advise on all aspects of running a limited company – contact us for assistance.**

## New rules on capital allowances and cars

The tax treatment of cars under the capital allowances system changed with effect from 1 April 2018. The new rules are likely to have a significant impact on many businesses. Here we consider the changes in more detail.

'Capital allowances' is the term used to describe the deduction we are able to claim on your behalf for expenditure on business equipment, in lieu of depreciation. The allowances available depend on what you are purchasing, and there are special rules for cars. Unlike expenditure on most plant and machinery, expenditure on cars does not qualify for the £200,000 Annual Investment Allowance (AIA) and instead only benefits from the writing down allowance (WDA). Any expenditure not covered by the AIA (or enhanced capital allowances) enters either the main rate pool or the special rate pool, attracting WDA at the appropriate rate.

## What's changed?

Whether the expenditure enters the main rate pool or the special rate pool depends on the vehicle's CO<sub>2</sub> emissions. Prior to 1 April 2018, expenditure on cars with CO<sub>2</sub> emissions not exceeding 130 g/km was allocated to the main pool, which attracts a WDA rate of 18%. Meanwhile, expenditure on cars with emissions over 130 g/km entered the special rate pool, which attracts an 8% WDA.

However, the government has now lowered the CO<sub>2</sub> emissions thresholds for capital allowances, thus restricting the available tax relief. The changes apply to business expenditure on cars which is incurred on or after 1 April 2018. From this date, expenditure on cars with CO<sub>2</sub> emissions not exceeding 110 g/km enters the main pool, while those with emissions over 110 g/km now enter the special rate pool.

It should be noted that the reduction in the emissions threshold from 130 g/km to 110 g/km will not apply to expenditure incurred under car hire contracts entered into before 1 April 2018 (corporation tax) or 6 April 2018 (income tax) for the purposes of the lease rental restriction. In addition, from 1 April 2018 the 100% first year allowance for expenditure on cars has been reduced for cars with CO<sub>2</sub> emissions of 75 g/km or less, to just 50 g/km.

## Reviewing your expenditure

There are only a few vehicles which meet the 50 g/km test, so not identifying the change could be costly. Businesses may want to take the opportunity to review their expenditure on business cars and consider some of the more tax-efficient options that may be available. There may be savings to be made from using goods vehicles, which are subject to different tax rules.

**We can help you to make the most of the tax reliefs available to your business.**





## Business Round-up

### Government publishes Making Tax Digital for VAT legislation

In March 2018, the government published the Value Added Tax (Amendment) Regulations 2018, which set out the requirements under Making Tax Digital for VAT (MTD for VAT).

The new regulations are set to take effect from 1 April 2019, and will apply to businesses which have a taxable turnover above the VAT registration threshold, which currently sits at £85,000.

Under the government's MTD regime, taxpayers will ultimately move to a fully digital tax system, and will be required to register, file, pay and update their financial information using a secure online tax account. The government has previously stressed that keeping digital records and making quarterly updates will not be compulsory for taxes other than VAT before April 2020.

From April 2018, HMRC is live piloting MTD for VAT, and a number of UK businesses have been invited to take part. Participating businesses will be able to submit VAT returns using the new digital system, and will have the opportunity to influence how the system works, looks and feels.

The government intends to expand the MTD pilot over the coming months.

Meanwhile, HMRC has also launched an MTD pilot for income tax for self-employed taxpayers. This pilot is open to sole traders with income from only one business, whose current accounting period ends after 5 April 2018.

### Chancellor delivers first Spring Statement

On 13 March 2018, Chancellor Philip Hammond delivered his first ever Spring Statement speech, in which he responded to the latest economic forecasts published by the Office for Budget Responsibility (OBR).

The annual Spring Statement forms part of the Chancellor's new Budget timetable, which has seen the main annual Budget move from its traditional Spring setting to the Autumn.

The Chancellor used his speech to report on the progress made on a number of measures announced in the 2017 Autumn Budget, as well as announcing some future measures. This included the announcement that the next business rates revaluation will be brought forward from 2022 to 2021.

Mr Hammond also launched a number of consultations, including a new consultation examining the effect of the current VAT registration threshold on small businesses, as well as consultations relating to changes to Entrepreneurs' Relief, and using the UK tax system to encourage the 'responsible use of plastic'.

New incentives to encourage the 'great British white van driver' to go green were also unveiled, whilst £20 million from existing budgets will be given to businesses and universities to help fund research into ways in which the impact of plastics on the environment can be reduced.

Meanwhile, over £1.5 billion has been allocated to departments and devolved administrations in preparation for the UK's exit from the European Union.

## Web Watch



Essential sites for business owners.

[ico.org.uk/for-organisations/guide-to-the-general-data-protection-regulation-gdpr](http://ico.org.uk/for-organisations/guide-to-the-general-data-protection-regulation-gdpr)

Provides a detailed guide to the General Data Protection Regulation.

[britishchambers.org.uk](http://britishchambers.org.uk)

Offers support for businesses all over the UK, and provides information on your local Chamber.

[hireanapprentice.campaign.gov.uk](http://hireanapprentice.campaign.gov.uk)

Supplies details on how to go about hiring an apprentice.

[gigabitvoucher.culture.gov.uk](http://gigabitvoucher.culture.gov.uk)

Offers information on how small businesses and individuals can apply for broadband vouchers.

## Reminders for your diary

### June 2018

- 1 New Advisory Fuel Rates (AFR) for company car users apply from today.
- 19 PAYE, Student loan and CIS deductions are due for the month to 5 June 2018.
- 30 End of CT61 quarterly period.

### July 2018

- 5 Deadline for reaching a PAYE Settlement Agreement for 2017/18.
- 6 Deadline for forms P11D and P11D(b) for 2017/18

to be submitted to HMRC and copies to be issued to employees concerned.

Deadline for employers to report share incentives for 2017/18.

- 14 Due date for income tax for the CT61 period to 30 June 2018.

- 19 Class 1A NICs due for 2017/18.

PAYE, Student loan and CIS deductions due for the month to 5 July 2018.

PAYE quarterly payments are due for small employers for the pay

periods 6 April 2018 to 5 July 2018.

- 31 Second payment on account for 2017/18 due.

### August 2018

- 2 Deadline for submitting P46(Car) for employees whose car/fuel benefits changed during the quarter to 5 July 2018.

- 19 PAYE, Student loan and CIS deductions are due for the month to 5 August 2018.