Nunn Hayward
Chartered Accountants

FACTSHEET
Complete Suite of Information Factsheets

Nunn Hayward
Chartered Accountants

Clear and concise factsheets on business and personal issues

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Accounting Records

One of the most commonly asked questions faced by accountants is what accounting records a business must keep, and for how long. This is not surprising, as record keeping can represent a significant administrative burden with associated costs. It can also result in penalties should a business fail to keep the records that it is required to retain. This factsheet will give you an indication of what accounting records a business must keep and for how long.

Limited companies

All companies are required to keep records that are sufficient to show and explain the transactions that have been entered into, that enable the financial position of the company to be determined with reasonable accuracy at any time, and that enable the directors to ensure that the company's accounts are compliant with the requirements of the Companies Act.

The accounting records are required to contain entries from day to day of all sums of money received and expended by the company and the matters to which they relate, and a record of the assets and liabilities of the company.

Additional requirements exist for those companies whose business involves dealing in goods, namely to retain a statement of the stock held at the end of the financial year that includes supporting stocktaking records. Unless a retail operation, there is also a requirement to maintain records of all goods sold and purchased that includes identifies the buyers and sellers.

A parent undertaking is obliged to ensure that any subsidiary undertaking also maintains adequate accounting records.

Company law requires records to be retained for a minimum period of three years (six years for a public company). As we shall see in a moment though, companies will usually be required for other reasons to retain their records for a longer period than this.

A failure to maintain adequate accounting records is considered to be a criminal offence committed by every officer of the company in default, potentially punishable by way of imprisonment of up to two years and/or a fine.

The requirements for limited liability partnerships (LLPs) mirror those for companies.

HMRC requirements

Companies

The Company law requirements for record keeping are primarily designed to enable directors to meet their obligation to prepare accounts each year for distribution to the company's shareholders and filing with Companies House. Additional requirements exist for all taxpayers, not just companies and LLPs, that enable them to demonstrate that their tax liabilities have been correctly calculated.

For businesses that fail to keep adequate records HMRC have the power to issue civil penalties of up to £3,000.

In addition to meeting the Company law requirements, HMRC require companies to retain any other financial records, information and calculations that were used to prepare the annual accounts and its corporation tax return. This goes further than the Company law requirements and will include items such as bank statements, invoices and contracts. It will also include details of judgements and estimates made when preparing the accounts that impact upon the calculation of the company's tax liability, such as provisions for stock obsolescence and bad debts, accruals and prepayments, and the measurement of financial instruments. It can be particularly important to retain records such as these, as these are likely to form the basis of any HMRC enquiry into the company's tax affairs.

Companies are required to keep their accounting records for a minimum of 6 years from the end of the financial year to which they relate. It may be necessary to retain them for longer than this in certain situations, such as where the company has bought fixed assets that it expects to last more than 6 years, or in respect of transactions that span more than one accounting period. The retention period is also extended when tax returns are filed late or where HMRC has started a compliance check into a tax return, in which case the records cannot be destroyed until that enquiry has been concluded.

Individuals and partnerships

The requirements for individuals, whether they operate as self-employed individuals or in partnership with others, mirror those for companies. The accounting records they are required to retain will be the same, although they are also required to retain records in support of other aspects of their self-assessment tax return such as dividend vouchers or interest statements.

For partnerships the accounting records will be shared by all the partners of the business. A nominated partner should be appointed, and it will be their responsibility for managing the partnership's tax returns and keeping business records.

The period that records need to be retained for differs slightly when compared to companies. Instead they should be kept for at least five years after the 31 January submission deadline of the relevant tax year. If the tax return is submitted more than four years after the normal filing deadline, then records must be kept for 15 months after the tax return is filed.

For individuals who are not self-employed or operating through a partnership, records should be kept for at least 22 months after the end of the tax year or for at least 15 months after the return was submitted if this is after the statutory deadline.

Value Added Tax

All VAT registered businesses are required to keep records of sales and purchases. This will include the following:

- All invoices issued
- All invoices received
- Self-billing agreements
- Name, address and VAT number of any self-billing suppliers
- Debit or credit notes
- Import and export documents
- Items you cannot reclaim VAT on
- Goods given away or taken from stock for private use

In addition some VAT records must be kept digitally as an 'electronic account' unless the business is exempt from Making Tax Digital for VAT:

- the VAT on goods and services supplied
- the VAT on goods and services received
- the 'time of supply' and 'value of supply' (value excluding VAT) for everything bought and sold
- any adjustments made to a return
- reverse charge transactions
- any VAT accounting schemes used
- your total daily gross takings if you use a retail scheme
- items you can reclaim VAT on if you use the Flat Rate Scheme
- your total sales, and the VAT on those sales, if you trade in gold and use the Gold Accounting Scheme

Generally VAT records must be kept for six years (ten years if using the VAT One Stop Shop or Mini One Stop Shop Schemes), although supporting records for bad debt relief claimed are only required to be kept for four years.

Employers

All employers are required to keep payroll records in support of the amounts paid to staff. This will include the following:

- Amounts paid to employees and the deductions made. As well as PAYE and national insurance this will include student loan repayments, pension contributions, payroll giving donations and child maintenance payments.
- Employee leave and sickness absences
- Tax code notices
- Taxable expenses or benefits
- Payroll giving scheme documents, including the agency contract and employee authorisation forms
- Reports and payments made to HMRC.

It would also be sensible to retain other records in support of the operation of your payroll, such as employment status determinations, compliance with national minimum wage requirements and the checks you undertake to ensure that your employees have a right to work in the UK.

Payroll records must be kept for three years from the end of the tax year to which they relate.

Nunn Hayward
Chartered Accountants

Other

- Documents relating to government grants must generally be kept for four years from receipt of the grant. Where grant aid is still being received, no documents should be destroyed without consulting the relevant government department.
- The Limitation Act 1980 allows an action to be brought on a contract for up to six years from the event (e.g. breach) that gave rise to the claim. Where a contract is under seal (or deed), the time limit is twelve years. These periods govern how long invoices and other documents should be retained as evidence in case of a claim by, or against, another party.

Format of records

Accounting records can be kept in physical form, electronically or as part of a software program such as accounting software. Whatever format is used, records must be easy to retrieve in a readable format. Where software is required to retrieve records it is important to remember to retain access to that software for the minimum period for keeping records, for example ensuring that any necessary licence fees are paid.

Increasingly though certain records must be retained in digital format, to support HMRC initiatives such as Making Tax Digital. To date this only applies to VAT, and requires VAT registered businesses that have adopted Making Tax Digital to retain the records used to prepare the VAT return for filing in digital form.

However they are stored though accounting records should be kept in an orderly fashion that helps to ensure that records are complete and accurate, and capable of timely retrieval. Also it is imperative that you follow the rules on data protection wherever personal information forms part of your accounting records.

How we can help

We will be very pleased to discuss with you the impact these record-keeping requirements may have on your business. If you would like to discuss these issues in more detail, please contact us.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Agency Workers Regulations

Nunn Hayward
Chartered Accountants

Regulations which took effect from 1 October 2011 mean that workers supplied to a company, or to any other entity, by an agency will become entitled to receive pay and basic working conditions equivalent to any directly employed employees after a 12 week qualifying period.

Guidance for businesses and other employers

Under the Agency Workers Regulations workers supplied to a company (or to any other entity) by an agency will become entitled to receive pay and basic working conditions equivalent to any directly employed employees after a 12 week qualifying period.

Where an agency worker is at the entity for less than 12 weeks, a minimum break of more than six weeks between assignments with the same employer will be necessary for the rights not to be available.

Supporting guidance

Guidance can be found on the GOV.UK website at https://www.gov.uk/government/publications/agency-workers-regulations-2010-guidance-for-recruiters

Impact of the Regulations

As explained below, most of the additional work, and much of the risk and liability, will be the responsibility of the agencies but it seems certain that they will pass the cost on by way of higher fees.

More directly, where the 'Employer' (see below) hires staff for more than the 12 week period, typically the costs of hiring staff will be greater. The Employer will also need to monitor the period of time the 'Agency Worker' has been at their premises and there may be additional risks and costs as a result.

Terms used in the Regulations

Much of the guidance uses terms such as 'Temporary Work Agency' (the Agency supplying the workers), the 'Agency Worker' and the 'Hirer' (being the entity or business where the Agency Worker is working). In this summary we have generally used the term 'Employer/Hirer' when we mean the 'Hirer' although it is not strictly the correct legal term. We have also used the word 'Agency' rather than 'Temporary Work Agency'.

Rights of Agency Workers under the Regulations

Under the Regulations, from their first day working at the Employer/Hirer, the Employer/Hirer will be required to ensure that the Agency Worker can access what are called 'collective facilities' such as canteens, childcare, transport services, car parking, etc and that they are able to access information on all job vacancies.

The Agency Worker's rights are to 'no less favourable treatment' in relation to these facilities, than that given to a comparable worker. A comparable worker is an employee or worker directly employed by the employer.

Then, after 12 weeks in the same job, the 'equal treatment entitlements' described below come into force.

Equal treatment entitlements and the 'Qualifying Clock'

After completion of the 12 week qualifying period the Agency Worker is entitled to the same basic terms and conditions of employment as if they had been directly hired by the Employer/Hirer. These would include:

- key elements of pay
- duration of working time
- night work
- rest periods
- rest breaks
- annual leave
- pregnant workers will be entitled to paid time off for antenatal appointments.

If a particular entitlement commences only after a period of service, for example, additional annual leave arises after one year of employment, then the entitlement would only start after one year plus 12 weeks.

The term 'Qualifying Clock' is used to illustrate the working of the guidance.

The guidance refers to extensive anti-avoidance provisions preventing a series of assignments being structured in such a way as to prevent an Agency Worker from completing the qualifying period and describes when the Qualifying Clock can be reset to zero, where the clock 'pauses' during a break, and where it continues to 'tick' during a break.

The examples given are extensive but include, for example:

- the clock is reset to zero where an Agency Worker begins a new assignment (and a new Employer/Hirer for this purpose is closely defined) or there is a break of more than six weeks
- the clock would be paused for a break of no more than six weeks and the worker returns to the same Employer/Hirer, or a break of up to 28 weeks because the worker is incapable of work because of sickness or injury
- the clock continues to tick as a result of breaks to do with pregnancy, childbirth, maternity or paternity leave.

There are many more examples given in the Business, Energy and Industrial Strategy (BEIS) guidance.

Identification of basic working and employment conditions and pay

Equal treatment covers basic working and employment conditions included in the relevant contracts of direct recruits, which would normally mean terms and conditions laid out in standard contracts, pay scales, collective agreements or company handbooks. Where available this would be the same pay, holidays, etc as if the Agency Worker had been recruited as an employee or worker to the same job. There does not have to be a comparable employee (called a 'comparator') but it would be easier to demonstrate compliance with the Regulations where such a person is available.

Pay is defined as including and excluding a number of elements, most of which are shown below.

To be included in pay for this purpose:

- basic pay based on an annual salary equivalent
- overtime payments
- shift / unsocial hours allowances
- payment for annual leave
- bonus or commission payments
- vouchers or stamps with monetary value which are not salary sacrifice schemes.

Not to be included:

- occupational sick pay
- occupational pensions (agency workers will be covered by Auto-enrolment which started to phase in from October 2012)
- occupational maternity, paternity or adoption pay
- redundancy pay/notice pay (statutory and contractual)
- majority of benefits in kind
- payments requiring an eligibility period of employment
- bonuses that are not directly linked to the individual's contribution (ie long-service bonuses)
- discretionary, non-contractual bonuses.

Working time and holiday entitlements

In addition to an agency worker's existing rights under the Working Time Regulations 1998, after 12 weeks, the worker becomes entitled to the same rights for working time, night work, rest periods and rest breaks and annual leave and overtime rates, as directly employed employees.

The guidance recognises that some Agency Workers already receive these benefits from the date they join the Employer/Hirer and mention as an example that Employers/Hirers often offer a lunch hour rather than the minimum 20 minute rest under the Working Time Regulations. The guidance also includes a reminder that the statutory entitlement to paid holiday leave is 5.6 weeks per year.

Pregnant workers and new mothers

After the 12 week qualifying period pregnant workers will be allowed paid time off for antenatal appointments and classes and if they can no longer carry out the duties of their original assignment they will need to be found alternative sources of work. If no such alternative work is available from either the Employer/Hirer or the Agency, the Agency should pay the pregnant woman for the remaining expected duration of the assignment.

The provisions of the Equality Act also apply, meaning that there is a risk that either an Agency or the Employer/Hirer could be guilty of discrimination if a worker were to receive less favourable treatment as a result of their pregnancy or maternity.

If the nature of the assignment is such that there is a risk to the worker's health and safety, the Agency will need to ask the Employer/Hirer to carry out a workplace risk assessment, which they will need to do.

Information likely to be requested by an Agency

To comply with these Regulations, agencies may need to collect certain information from the Employer/Hirer before an assignment begins. This is in addition to their existing obligations under what are known as the Conduct Regulations 2010 and the Gangmasters Licensing Regulations (for the food, agricultural and shellfish sectors).

Where an assignment is likely to last for more than 12 weeks, it will probably be good practice for the Agency to ask for information at an early stage though the Regulations do not refer to any particular timescale.

Existing regulations require information about:

- hirer's identity, business and location
- start date and duration
- job role, responsibilities and hours
- experience, training, qualifications etc
- health and safety risk
- expenses.

The details now required to comply with the Agency Workers Regulations after the 12 week period are:

- basic pay, overtime payments, shift/unsocial hours allowances and any risk payments
- types of bonus schemes
- vouchers with monetary value
- annual leave entitlement.

It is likely that the Agency will also ask for information about any day one entitlements which may be available, even though they are the responsibility of the Employer/Hirer.

Liability and remedies

The responsibility lies with the Employer/Hirer to provide day one entitlements and claims would probably be against the Employer/Hirer.

Claims with regard to basic working and employment conditions could be against either the Employer/Hirer, or the Agency, or against both, depending on the nature of the breach and whether, for example, the Employer/Hirer had failed to provide information to the Agency. Claims would be made to an Employment Tribunal if not resolved through grievance procedures and/or possibly through the involvement of ACAS.

Employment Tribunals would be able to award financial compensation or recommend action that should be taken.

How we can help

If you would like to discuss the implications of the new Regulations for your business in more detail please contact us.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Annual Leave

Background

Under the Working Time Regulations 1998 (as amended), workers are entitled to paid statutory annual leave of 5.6 weeks (28 days if the employee works five days a week). This basic entitlement is inclusive of bank holidays. This annual leave entitlement is now closer to that of workers in other European countries where the holiday allowance is typically more generous. Workers in Ireland are entitled to 30 days; the highest minimum entitlement is in Andorra at 45 days.

Payment for annual leave

A worker is entitled to be paid in respect of any period of annual leave for which they are entitled at a rate of one week's pay for each week's leave. For employees with normal working hours, a week's pay is the pay due for the basic hours the employee is contracted to work. Any regular contractual bonuses or allowances (except expense allowances) which do not vary with the amount of work done are also included.

Where a worker has variable pay, a week's pay is based on their average weekly earnings. For leave years that begin before 1 April 2024, the average is calculated from the previous 52 weeks, discounting any weeks where no pay was received. For leave years beginning on or after 1 April 2024 there is a new accrual method and holiday entitlement for these workers will be calculated as 12.07% of actual hours worked in a pay period.

When calculating a week's pay, some additional elements may need considering in addition to base pay.

Commission has previously not been included in the calculation of holiday pay, however, following a ruling by the European Court of Justice (ECJ) which was upheld by the Court of Appeal, when commission is related to the number of sales made whilst at work, it should also be included in the calculation of holiday pay. There was a further appeal to the Supreme Court, which was not granted and employers will now be required to comply with this ruling.

Guaranteed and non-guaranteed overtime should also be included along with regular voluntary overtime payments. The difference between non-guaranteed and voluntary overtime is that the employee is obliged to do non-guaranteed overtime if it is offered, but can turn down voluntary overtime. Where the voluntary overtime is irregular or ad hoc it does not need to be included unless it extends for a sufficient period of time on a regular and/or recurring basis. This includes overtime regularly worked at certain points in the year, for example at Christmas, as well as frequently worked overtime throughout the year.

These additional elements need only be included for the four weeks of statutory leave required by European law which is lower than the UK minimum of 5.6 weeks, it can be excluded for any additional days above this.

Under the Regulations any statutory annual leave may not be replaced by a payment in lieu, except on termination of employment. In such cases, a payment can be made for any untaken leave in the leave year that termination occurs. Payment may also be due for any carried over leave because of maternity/ adoption leave or sickness.

Requesting leave

Employees should be allowed to choose when they take some of their leave although many employers do set certain conditions, for example that only a certain number of workers may take leave at the same time or that workers may not take more than a certain number of consecutive working days off in one go.

It is common for employers to have a procedure in place for these instances and it should include the procedure for notification. If this is excluded, then the legal position is that an employee requesting a period of leave must give notice of at least twice the period of leave to his or her employer. A similar arrangement of notice must be given by the employer if they are requesting the employee to take leave at specific times.

First year of employment

Workers accrue their annual leave entitlement on a pro rata basis during their first year of employment. This is calculated in relation to the proportion of the employment year worked. Therefore, the annual leave entitlement will accrue over the course of the worker's first year of employment at the rate of 1/12 of the annual entitlement, starting on the first day of each month. If the calculation does not result in an exact number of days then the figure will be rounded up to the nearest half day.

Annual leave and part time employees

Under the Regulations, currently, holiday entitlement for part-time workers is 5.6 weeks, pro-rated based on hours worked.

From 1 April 2024, the calculation will be done using the 12.07% accrual method, which will include an adjustment for bank holidays based on actual hours worked, making it easier for employers to calculate and ensure compliance.

The ECJ ruled that it is unlawful for employers to roll up workers' annual leave payments - however, for leave years beginning on or after 1 April 2024, employers can use rolled-up holiday pay for irregular-hours or part-year workers as opposed to paying holiday pay when a worker actually takes annual leave.

Contractual annual leave entitlement

An employer can increase a worker's statutory annual leave entitlement via a contractual arrangement. In such cases any unused additional annual leave may be carried over to the next leave year. This is often a matter of employer discretion and will depend on the terms of the contract.

Annual leave accrual during maternity and adoption leave

An employee continues to accrue their statutory annual leave entitlement of 5.6 weeks and any additional contractual annual leave entitlement throughout both ordinary maternity leave (OML) and additional maternity leave (AML).

Sickness during holiday

Employees are now entitled to reclassify statutory holiday as sick leave if they fall ill whilst on prearranged statutory holiday. This means that they are entitled to take the statutory holiday they have missed later. If they are unable to take the rest of their statutory holiday that holiday year, they can carry it over to the next holiday year. If you offer more than 5.6 weeks holiday a year, you do not have to allow an employee to re-classify any additional (contractual) holiday as sickness absence. However, you will have to ensure that they can take their full statutory holiday at other times. If you pay contractual sick pay, you can minimise the scope for abuse by making contractual sick pay in these circumstances contingent on the employee notifying you on the first day of illness that they are ill and, possibly, requiring them to provide a medical certificate from the first day of their illness.

Employees who are on sick leave can ask their employer to re-classify their absence as statutory holiday in order to receive holiday pay. If an employee on sick leave does not want to take their outstanding statutory holiday before your current leave year ends, they should be permitted to carry it over into the next leave year. Employees returning from sick leave can take their statutory holiday entitlement for the current year on their return but, if there is insufficient time for them to take it, they should be allowed to carry it forward to the next leave year.

Recovery of overpayment of holiday

Employee contracts should make clear that if an employee takes more holiday than he or she is entitled to during the course of a leave year, the company will be entitled to recover the overpayment of holiday pay by deducting it from the employee's wages or salary. It is advisable for the company to consult with the employee before making the deduction.

How we can help

We will be more than happy to provide you with assistance or any additional information required. Please contact us for more detailed advice.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Bribery Act 2010

Nunn Hayward
Chartered Accountants

The Bribery Act 2010 (the Act) applies across the UK and all businesses need to be aware of its requirements. The Act includes a 'corporate' offence of 'failure of commercial organisations to prevent bribery'. The defence against this offence is to ensure that your business has adequate procedures in place to prevent bribery. To help ensure this we recommend that you undertake a risk assessment for your own business and establish appropriate compliance procedures.

What action should you take?

- familiarise yourself with the guidance issued by the Ministry of Justice
- review the current activities of your business and assess the risk of bribery occurring
- assess the strength of the measures that you currently have in place to prevent bribery
- make any necessary updates to your staff handbooks: for example, your human resources manual
- consider whether specific anti-bribery staff training is required
- consider if changes are needed to other policies and procedures, for example, expenditure approval and monitoring processes
- communicate the changes that you have made to your policies and procedures
- consider if you need to undertake any due diligence procedures.

The Bribery Act 2010

The Act replaced, updated and extended previous UK law against bribery and corruption. It applies across the UK and all UK businesses and overseas businesses carrying on activities in the UK are affected.

The offences established by the Act are defined very broadly and the Act has significant extraterritorial reach in that it extends to acts or omissions which occur outside of the United Kingdom. Specific details about its jurisdiction can be found in the detailed guidance referred to under 'Ministry of Justice guidance' below, as well as in the Act itself.

What is bribery?

Bribery is a broad concept. In supplementary guidance published alongside the Act, it is very generally defined as 'giving someone a financial or other advantage to encourage that person to perform their functions or activities improperly or to reward that person for having already done so. So this could cover seeking to influence a decision-maker by giving some kind of extra benefit to that decision-maker rather than by what can legitimately be offered as part of a tender process.'

The key offences

Under the Act there are two general offences:

Active bribery – Section one of the Act prohibits offering, promising or giving a financial or other advantage (a bribe) to a person with the intention of influencing a person to perform their duty improperly.

Passive bribery – Section two of the Act prohibits a person from requesting, agreeing to receive or accepting a bribe for a function or activity to be performed improperly.

In addition, there are two further offences that specifically address commercial bribery:

Bribery of foreign public officials (FPO) – Section six of the Act prohibits bribery of an FPO with the intention of influencing them in their official capacity and obtaining or retaining business or an advantage in the conduct of business.

Failure of commercial organisations to prevent bribery – Section seven of the Act introduces a strict liability offence that will be committed if:

- bribery is committed by a person associated with a relevant commercial organisation

- the person intends to secure a business advantage for the organisation
- the bribery is either an active offence (section one of the Act) or bribery of an FPO (section six of the Act).

This means that a commercial organisation commits an offence if a person associated with it bribes another person for that organisation's benefit. This 'corporate' offence is the most significant and controversial change to existing law and it is primarily this offence that you must now consider and prepare your business for as necessary.

It is important to note, however, that the Act also states that there is a defence available for commercial organisations against failing to prevent bribery if they have put in place 'adequate procedures' designed to prevent persons associated with them from bribing others on their behalf. The Secretary of State is required by the Act to publish guidance about such procedures.

Senior officers of an organisation can also be held personally liable under the Act for other bribery offences committed by the organisation, i.e. the active and passive bribery offences as well as the bribery of an FPO, where the offence is proved to have been committed with their 'consent or connivance'.

'Senior officer' is widely defined in the Act to include directors, managers, company secretaries and other similar officers, as well as those purporting to act in such a capacity.

Key definitions and terminology

Inevitably, in order to fully understand the requirements of the Act, it is necessary to be familiar with a number of key definitions.

Relevant commercial organisation

The corporate offence can be committed by a 'relevant commercial organisation', which broadly includes:

- any body which carries on a business and is incorporated under, or is a partnership which is formed under, any UK law, regardless of where it carries on business
- any body corporate or partnership, wherever it is incorporated or formed, which carries on business in the UK.

We will refer to those affected by this corporate offence as 'businesses'.

Persons associated

The corporate offence also refers to a person 'associated' with a commercial organisation. While there is not an absolute list of all who could be included, we are told that this is a person who performs services for, or on behalf of, the organisation, regardless of the capacity in which they do so.

Accordingly, this term will be construed broadly and while examples are given of an employee, agent or subsidiary, it could also cover intermediaries, joint venture partners, distributors, contractors and suppliers.

Guidance issued by the Ministry of Justice (see below) acknowledges that the scope of 'persons associated' is broad and states that this is so as to 'embrace the whole range of persons connected to an organisation who might be capable of committing bribery' on its behalf.

Improper performance

The passive and active bribery offences both refer to the 'improper performance' of a function or activity. 'Improper performance' covers any act or omission that breaches an expectation that a person will act in good faith, impartially, or in accordance with a position of trust. This is an objective test based on what a reasonable person in the UK would expect in relation to the performance of the relevant activity.

Ministry of Justice guidance

The Act requires the Secretary of State to publish guidance for commercial organisations about procedures that they can put in place to prevent persons associated with them from bribing. This is important guidance in respect of providing a defence against the 'corporate offence'.

The Ministry of Justice (MoJ) has issued the following formal, statutory guidance:

- The Bribery Act 2010 – guidance about procedures which relevant commercial organisations can put into place to prevent persons associated with them from bribing (section nine of the Bribery Act 2010). Whilst the guidance is not prescriptive and does not set out an absolute checklist of requirements for businesses to follow, it does aim to clarify the practical requirements of the legislation. Illustrative case studies, which do not form part of the guidance issued under section nine of the Act, are also included.

It has also produced non-statutory guidance for small businesses, providing a concise introduction to how they can meet the requirements of the Act:

- The Bribery Act 2010 – quick start guide.
- Insight into awareness and impact of the Bribery Act 2010 among small and medium sized enterprises (SMEs).

Defending your business against failing to prevent bribery

All businesses will need to pay some attention to the corporate offence of failing to prevent bribery. How much you will have to do will depend on the bribery risks facing your business.

If a business can show that it had 'adequate procedures' in place to prevent bribery then it will have a full defence against the corporate offence. The meaning of 'adequate procedures' is not defined in the Act and it is here that the MoJ statutory guidance should be considered.

This guidance requires procedures to be tailored to the individual circumstances of a business, based on an assessment of where the risks lie. Therefore, what counts as 'adequate' will depend on the bribery risks faced by a business and its nature, size and complexity.

The MoJ guidance does recognise that the Act is not there to impose the 'full force' of criminal law upon well run businesses for an isolated incident of bribery. It also recognises that no business is capable of preventing bribery at all times. The 'quick start' guidance for smaller businesses comments that 'a small or medium-sized business which faces minimal bribery risks will require relatively minimal procedures to mitigate those risks'.

How should you begin to determine the approach needed in your business? The MoJ guidance identifies six guiding principles for businesses wishing to prevent bribery from being committed on their behalf (see the panel below). These principles are not, however, prescriptive.

The six principles that should guide anti-bribery procedures

1. **Proportionate procedures:** A commercial organisation's procedures to prevent bribery by persons associated with it are proportionate to the bribery risks it faces and to the nature, scale and complexity of the commercial organisation's activities. They are also clear, practical, accessible, effectively implemented and enforced.
2. **Top-level commitment:** The top-level management of a commercial organisation (be it a board of directors, the owners or any other equivalent body or person) are committed to preventing bribery by persons associated with it. They foster a culture within the organisation in which bribery is never acceptable.
3. **Risk assessment:** The commercial organisation assesses the nature and extent of its exposure to potential external and internal risks of bribery on its behalf by persons associated with it. The assessment is periodic, informed and documented.
4. **Due diligence:** The commercial organisation applies due diligence procedures, taking a proportionate and risk based approach, in respect of persons who perform or will perform services for or on behalf of the organisation, in order to mitigate identified bribery risks.
5. **Communication (including training):** The commercial organisation seeks to ensure that its bribery prevention policies and procedures are embedded and understood throughout the organisation through internal and external communication, including training, that is proportionate to the risks it faces.
6. **Monitoring and review:** The commercial organisation monitors and reviews procedures designed to prevent bribery by persons associated with it and makes improvements where necessary.

Other important matters

Corporate hospitality

A potential area of concern under the Act is the provision and receipt of corporate hospitality, promotional and other such business expenditure and how this might be perceived. While this may not be a significant issue for your business, especially when you consider your own level of such expenditure, it may be an important consideration for others.

The MoJ guidance states: 'Bona fide hospitality and promotional, or other business expenditure which seeks to improve the image of a commercial organisation, better to present products and services, or establish cordial relations, is recognised as an established and important part of doing business and it is not the intention of the Act to criminalise such behaviour. The Government does not intend for the Act to prohibit reasonable and proportionate hospitality and promotional or other similar business expenditure intended for these purposes.'

The guidance goes on to say: 'It is, however, clear that hospitality and promotional or other similar business expenditure can be employed as bribes.'

Facilitation payments

Facilitation payments, which are payments to induce officials to perform routine functions they are otherwise obligated to perform, are bribes and are therefore illegal under the Act.

Penalties

The penalties associated with the Act are significant. On conviction for one of the main bribery offences, an individual may face up to ten years' imprisonment and/or an unlimited fine. A business faces an unlimited fine.

The senior officers of a business could also be liable to a prison sentence if bribery was perpetrated with their 'consent or connivance'. Disqualification from acting as a director for a substantial period of time could also arise.

Conclusion

The steps to be taken to prevent bribery will clearly vary from business to business and not all businesses will need to put in place complex procedures to deal with the requirements of the legislation. The supporting guidance issued by the MoJ emphasises the need for a common sense approach.

A key point noted in 'quick start' guidance is that 'there is a full defence if you can show you had adequate procedures in place to prevent bribery. But you do not need to put bribery prevention procedures in place if there is no risk of bribery on your behalf.'

How can we help

We believe the above summary will help you understand the implications of the Bribery Act 2010. If you would like to discuss the implications of the Act for you and your business in more detail please contact us.

Nunn Hayward

Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward

Chartered Accountants

FACTSHEET

Bring Your Own Device

Some employees prefer to use their own personal mobile device that places the organisation at risk from reputational damage and legal proceedings.

Firms need to have a formal policy with regard to the use of personal devices at work.

Bring Your Own Device (BYOD) refers to this type of policy - that defines which mobile devices (if any), employees can use to access company networks/systems.

We consider how to structure such a policy, and what should be included.

What should a BYOD policy cover?

Firms need a policy that sets out the devices which may or may not be connected to its network. It will also need procedures to ensure that non-approved devices can never be 'accidentally' connected. Finally, appropriate mechanisms must be put in place to maintain security over personal data, which may be stored on mobile devices.

Audit of existing devices and access rights

The first step is to perform an audit of the current situation. Which devices use the network, and what for?

What does the law say?

As the employer (who is the Data Controller) there are obligations under GDPR to take appropriate technical and organisational measures against unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data.

There is a high risk that confidential corporate and client data can find its way onto personal devices – which are usually not very secure and can be easily lost, or mislaid, or stolen.

The risks of reputational damage

Imagine this scenario. An employee receives an email with an attachment containing a mailing list of all clients and their contact details, which they open and save onto their mobile device. If that device then goes missing the data stored on it could find its way into the public domain, or be mis-used, or sold onto a competitor. What's worse is that the Information Commissioner's Office will need to be notified of the loss of data, as will each individual on that mailing list. This can cause major reputational damage as well as a large financial penalty.

Which devices are acceptable?

Having performed an audit, the second stage is to decide what to include or exclude from a BYOD policy, and this is usually done at device level.

Level	Device
1	No devices (zero-tolerance)
2	A list of 'approved' devices
3	Any/all devices

Level one - zero-tolerance

This may be the quickest, easiest and simplest solution, but may not necessarily be the most pragmatic or practical.

It may also serve to hinder rather than help some employees perform certain tasks, which can lead to job dissatisfaction and a lowering of morale.

So, an outright ban could prove to be counter-productive.

It can also be quite difficult (and therefore expensive) to control and police a zero-tolerance policy without strong network security controls.

Level two - approved devices

This allows a set list of devices, or devices with particular operating software (e.g. iOS devices only or Android and Windows devices only).

The approved device approach can make it easier to manage and control access, but may leave some employees disadvantaged if their device is not covered. It can also be difficult to manage, as new models and new devices emerge on a daily basis.

Level three - any device

This allows any device to be 'plugged in'.

This approach is entirely opposite to zero-tolerance and allows any device to be 'plugged in' at any time. Advantages are a) for the employee who is not restricted by device, and b) for the company, which does not have to keep updating a list of approved devices.

However, strong controls such as mobile device management systems need to be employed with this type of approach.

An alternative option!

In an increasing trend, some firms have decided to abandon BYOD and having a zero-tolerance policy, in favour of providing devices to employees.

Which applications are acceptable?

The firm may wish to restrict access to certain applications – most often to email and internet access only. Full-blown access to networks and applications should be avoided where possible, other than from PCs or laptops and then only via trusted networks or secure remote access tools.

Business versus private use

BYOD devices owned by an employee are likely to be used for both business and private purposes.

On the one hand the employee has to be confident that the company will not access personal material stored on the device or use device monitoring tools, whilst on the other hand the company will want to protect corporate and client confidential information which may also be stored (or visible) on the device.

Employers also need to be aware that devices may be used (for personal purposes) not just by the employee, but also by other family members.

Wireless security

The easiest and quickest way for devices to be attached to a network is for employees to use their device to login to a network, wirelessly. Some firms publish their wireless key to employees without realising that they are using the key on all devices including personal devices.

A common method of providing device security is to make the wireless key very strong (i.e. difficult to remember), and only entered into the device by a member of the IT support team, or other nominated individual. Thus control can be maintained at device level relatively easily. However this approach can be very time consuming, depending on the size or complexity of the organisation.

More robust approaches will utilise network hardware to create access control lists against specific devices that must first be registered and therefore approved by the business before they can connect. The advantages of this method allow for auditing and time zone controls such are restricting wireless access to office hours.

Device registration

Most current versions of network operating software (Windows and Mac) have inbuilt security tools that can be used to maintain a list of 'approved' devices.

This is done through a registration process in much the same way as network hardware registration, whereby the device is presented and registered on the network.

If a device gets mislaid or an employee leaves, the device can be blocked/removed from the list of registered devices.

Whilst this approach is useful in blocking unwanted guests and controlling access to network resources the disadvantage is the lack of control when a connecting device is lost or stolen.

Mobile device management (MDM)/Mobile applications management (MAM)

A more robust approach to providing device security is to use MDM services – these may either be provided as part of the network operating software, or this service may be provided by a third party.

There are different levels of this type of service ranging from simple registration and device reset services, to sandboxing personal and corporate data, which will allow separate wiping of corporate data only.

Employees will have to agree/consent to whichever mobile device management system is used if they want to adopt BYOD.

Employees must also agree/consent if MDM software is used to monitor the device, the activities that are monitored and whether or not geo-location is used.

Finally, employees will need to understand what will happen to their own personal data stored on the device, in the event the device has to be disabled.

This method has all the benefits of being easy to use, from the end-user perspective, whilst being very secure from the business perspective. The business can also perform operations such as locating devices, should they be lost or stolen, or performing a block and wipe remotely.

Data encryption

A BYOD policy in itself does not provide sufficient safeguards. All confidential/personal data must be encrypted. Just setting a document/spreadsheet as read-only, or creating a password to open the document/spreadsheet is not the same as encrypting the data.

Firms must assess what personal data is being transferred from and to which devices. Then perform a risk assessment of the chances of the data getting into the public domain, and then use appropriate encryption methods to protect that confidential/personal data.

Other issues to consider

- device password protection - Each BYOD device must have a start-up password/pin and should lock if not active for a specified number of minutes, or lock if an incorrect password/pin is entered for so many attempts
- mislaid devices – as part of the BYOD policy the employee will need to know who to contact and what will happen to the device if it is mislaid (i.e. what data might be wiped from the device)
- cost – the firm may or may not agree to pay for certain mobile device charges or the cost of replacement of lost/stolen or damaged devices when used for business purposes
- acceptable use policy – the firm will want to ensure that any acceptable use policy also applies to BYOD devices
- devices that have been rooted/jail-broken should not be permitted and a strict policy should be in place that any device setup for BYOD is then not subsequently rooted/jailbroken
- storage media – the firm may want to specify the approach with regard to memory/SD cards, in particular whether they are encrypted or whether data can be stored upon them

Implementing the BYOD policy

BYOD can either be formulated as a separate policy, added to an existing acceptable use policy, or added to an existing internet and email policy or social media policy.

Company devices, by default, will come under the scope of BYOD.

Employees with their own personal devices should be given the opportunity to opt-out or opt-in to the BYOD policy:-

- opt-out - Decline to sign-up for the BYOD policy – in which case the employee will not be able to use any personal devices for work
- opt-in - Agree to sign-up for the BYOD policy – in which case their device will need to be registered on the network and also, if applicable, with a mobile device management service.

See our summary for our four easy steps in defining and implementing a BYOD policy.

Nunn Hayward
Chartered Accountants

Summary

It is important that the employer (who is the Data Controller) remains compliant with GDPR with regard to the processing of personal data. In the event of a security breach, the employer must be able to demonstrate that all personal data stored on a particular device is secured, controlled or deleted. Having a BYOD policy will go a long way towards meeting that objective.

Four steps to defining and implementing a BYOD

Step one - audit devices and usage

What devices are currently allowed onto the network?

What access rights do they have?

What applications do they use?

What data should they store?

Step two - level of BYOD

Decide which level of BYOD is to be adopted –

1. no devices
2. approved list
3. all/any devices
4. define which applications are accessible to mobile devices.

Step three - BYOD policy

Formulate and write the BYOD policy.

Make appropriate network infrastructure security changes and procure any additional services (such as MDM).

Decide if additional security is required, such as data encryption tools.

Define and communicate a date for implementing the policy.

Step four - implementation date

Remove all current devices and ensure they are not holding data.

Register approved devices.

Employees who own such devices sign BYOD.

How we can help

Please contact us if you require help in the following areas:

- performing a security/information audit of corporate/client data and who and what access this data
- defining a BYOD policy
- implementing a BYOD policy and training staff.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Business Motoring - Tax Aspects

This factsheet focuses on the current tax position of business motoring, a core consideration of many businesses. The aim is to provide a clear explanation of the tax deductions available on different types of vehicle expenditure in a variety of business scenarios.

Methods of acquisition

Motoring costs, like other costs incurred which are wholly and exclusively for the purposes of the trade, are tax deductible but the timing of any relief varies considerably according to the type of expenditure. In particular, there is a fundamental distinction between capital costs and ongoing running costs.

Purchase of vehicles

Where vehicles are purchased outright, the accounting treatment is to capitalise the asset and to write off the cost over the useful business life as a deduction against profits. This is known as depreciation.

The same treatment applies to vehicles financed through hire purchase with the equivalent of the cash price being treated as a capital purchase at the start with the addition of a deduction from profit for the finance charge as it arises. However, the tax relief position depends primarily on the type of vehicle, and the date of expenditure.

A tax distinction is made for all businesses between a normal car and other forms of commercial vehicles including vans, lorries and some specialist forms of car such as a driving school car or taxi.

Tax relief on purchases

Vehicles which are not classed as cars are eligible for the Annual Investment Allowance (AIA) for expenditure incurred. The AIA provides a 100% deduction for the cost of plant and machinery purchased by a business up to an annual limit. The amount of AIA available varies depending on the period of the accounts. The amount of AIA is at £1,000,000. Where purchases exceed the AIA, a writing down allowance (WDA) is due on any excess in the same period. The WDA available is currently at a rate of 18% or 6% depending on the asset. Cars are not eligible for the AIA, so will only benefit from WDA.

In addition, a 100% First Year Allowance (FYA) is currently available for businesses purchasing electric charge-point equipment.

Complex cars!

The green car

Cars generally only attract the WDA but there is one exception to this and that is where a business purchases a new car with zero emissions – a so-called 'green' car. Such purchases attract a 100% allowance to encourage businesses to purchase cars which are more environmentally friendly. A 100% write off is only available where the CO_2 emissions of the car are 0 g/km and the car is purchased new. The cost of the car is irrelevant and the allowances are available to all types of business.

The allowance is dependent on the CO_2 emissions of the car.

Cars with emissions between 1 - 50 g/km inclusive qualify for main rate WDA.

Cars with emissions in excess of 50 g/km are placed in the special rate pool and qualify for an annual WDA of 6%.

The 100% FYA is available on new zero emission cars purchased (not leased) by a business.

If a used car is purchased with CO_2 emissions of 0g/km, this is placed in the main pool and will receive the 18% WDA.

Non-business cars

Any cars used by the self employed where there is part non–business use will still be separately allocated to a single asset pool. The annual allowance will initially be based on the CO_2 emissions and then the available allowance will be restricted for the private use element.

Example

A company purchases two cars for £20,000 in its 12 month accounting period to 31 March 2025. The dates of purchase and CO_2 emissions are as follows:

White car	Blue car
1 May 2024	1 May 2024
45	80

Allowances in the year to 31 March 2025 relating to these purchases will be:

White car (main pool as emissions up to 50 g/km)	Blue car (special rate pool as emissions more than 50 g/km)
£20,000 @ 18% = £3,600	£20,000 @ 6% = £1,200

In the following year to 31 March 2026 the allowances will be:

White car	Blue car
£16,400 @ 18% = £2,952	£18,800 @ 6% = £1,128

What if vehicles are leased?

The first fact to establish with a leased vehicle is whether the lease is really a rental agreement or whether it is a type of purchase agreement, usually referred to as a finance lease. This is because there is a distinction between the accounting and tax treatment of different types of leases.

Tax treatment of rental type operating leases (contract hire)

The lease payments on operating leases are treated like rent and are deductible against profits. However where the lease relates to a car there may be a portion disallowed for tax.

A disallowance of 15% applies for cars with CO_2 emissions which exceed 50 g/km.

Example

Contract signed 1 July 2024 by a company:
The car has CO_2 emissions of 86g/km and a £6,000 annual lease charge. The disallowed portion would be £900 (15%) so £5,100 would be tax deductible.

Tax treatment of finance leased assets

These will generally be included in your accounts as fixed assets and depreciated over the useful business life but as these vehicles do not qualify as a purchase at the outset. The expenditure does not qualify for capital allowances unless classified as a long funding lease. Tax relief is generally obtained instead by allowing the accounting depreciation and any interest/finance charges in the profit and loss account.

Private use of business vehicles

The private use of a business vehicle has tax implications for either the business or the individual depending on the type of business and vehicle.

Sole traders and partners

Where you are in business on your own account and use a vehicle owned by the business – irrespective of whether it is a car or van – the business will only be able to claim the business portion of any allowances. This applies to capital allowances, rental and lease costs, and other running costs such as servicing, fuel etc.

Providing vehicles to employees

Where vehicles are provided to employees irrespective of the form of business structure – sole trader/partnership/company – a taxable benefit generally arises for private use. A tax charge will also apply where private fuel is provided for use in an employer provided vehicle. For the employer such taxable benefits attract Class 1A National Insurance.

Vans

No charge applies where employees have the use of a van and a restricted private use condition is met. For details on what this means please contact us. Where the condition is not met there is a flat rate charge per annum. These benefits are £4,020 for unrestricted private use plus an additional £769 for private fuel in 2025/26 (£3,960 and £757 for 2024/25).

How we can help

If you would like further details on any matter contained in this factsheet please contact us.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Business Plans

Nunn Hayward
Chartered Accountants

Every new business should have a business plan. It is the key to success. If you need finance, no bank manager will lend money without a considered plan.

It is one of the most important aspects of starting a new business. Your plan should provide a thorough examination of the way in which the business will commence and develop. It should describe the business, product or service, market, mode of operation, capital requirements and projected financial results.

Why does a business need a plan?

Preparing a business plan will help you to set clear objectives for your business and clarify your thinking. It will also help to set targets for future performance and monitor finances and profitability. It should help to provide early warning for when you might need to reconsider the plan.

Always bear in mind that anyone reading the plan will need to understand the essentials of your business quickly and easily.

Contents

The business plan should cover the following areas.

- **Overview**
  An overview of your plans for the business and how you propose to put them into action. This is the section most likely to be read by people unfamiliar with your business so try to avoid technical jargon.
- **Description**
  A description of the business, your objectives for it and how you plan to achieve them. Include details of the background to your business for example how long you have been developing the business idea and the work you have carried out to date.
- **Personnel**
  Details of the key personnel including yourself and any external consultants. You should highlight the skills and expertise that these people have and outline how you intend to deal with any weaknesses.
- **Product**
  Details of your product or service and your Unique Selling Point. This is exactly what its name suggests, something that the competition does not offer. You should also outline your pricing policy.
- **Marketing**
  Details of your target markets and your marketing plan. This may form the basis for a separate, more detailed, plan. You should also include an overview of your competitors and your likely market share together with details of the potential for growth. This is usually a very important part of the plan as it gives a good indication of the likely chance of success.
- **Practices**
  You will need to include information on your proposed operating practices and production methods as well as premises and equipment requirements.
- **Financial forecasts**
  The plan should cover your projected financial performance and the assumptions made in your projections. This part of the plan converts what you have already said about the business into numbers. It will include a cash flow forecast which shows how much money you expect to flow in and out of the business as well as profit and loss predictions and a balance sheet. Detailed financial forecasts will normally be included as an appendix to the plan. As financial advisers we are particularly well placed to help with this part of the plan.
- **Financial requirements**
  The cash flow forecast referred to above will show how much finance your business needs. The plan should state how much finance you want and in what form. You should also say what the finance will be used for and show that you will have the resources to make the necessary repayments. You may also give details of any security you can offer.

The future

Putting together a business plan is often seen as a one-off exercise undertaken when a new business is starting up.

However the plan should be updated on a regular basis. It can then be used as a tool against which performance can be monitored and measured as part of the corporate planning process. There is much merit in this as used properly it keeps the business focused on objectives and inspires a discipline to achieve them.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

How we can help

We look forward to helping you put together your best possible plan for the future.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE   01753 888211   www.nhllp.com

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET

Business Structures - Which Should I Use?

01753 888211 | info@nhllp.com | www.nhllp.com

Having made the decision to be your own boss, it is important to decide the best legal and taxation structure for your enterprise. The most suitable structure for you will depend on your personal situation and your future plans. The decision you make will have repercussions on the way you are taxed, your exposure to creditors and other matters.

The possible options you have are as follows.

Sole trader

This is the simplest way of trading. There are only a few formalities to trading this way, the most important of which is informing HMRC. You are required to keep business records in order to calculate profits each year and they will form the basis of how you pay your tax and national insurance. Any profits generated in this medium are automatically yours. The business of a sole trader is not legally distinguished from the proprietor's personal affairs so that if there are any debts, you are legally liable to pay those debts down to your last worldly possession.

Partnership

A partnership is an extension of being a sole trader. Here, a group of two or more people will come together, pool their talents, clients and business contacts so that, collectively, they can build a more successful business than they would individually. The partners will agree to share the joint profits in predetermined percentages. It is advisable to draw up a Partnership Agreement which sets the rules of how the partners will work together. Partners are taxed in the same way as sole traders, but only on their own share of the partnership profits. As with sole traders, the partners are legally liable to pay the debts of the business. Each partner is 'jointly and severally' liable for the partnership debts, so that if certain partners are unable to pay their share of the partnership debts then those debts can fall on the other partners.

Limited company

A limited company is a separate legal entity from its owners. It can trade, own assets and incur liabilities in its own right. Your ownership of the company is recognised by owning shares in that company. If you also work for the company, you are both the owner (shareholder) and an employee of that company. When a company generates profits, they are the company's property. Should you wish to extract money from the company, you must either pay a dividend to the shareholders, or a salary as an employee. The advantage to you is that you can have a balance of these two to minimise your overall tax and national insurance liability. Companies themselves pay corporation tax on their profits after paying your salary but before your dividend distribution. Effective tax planning requires profits, salary and dividends to be considered together. There are many advantages as well as disadvantages to operating through a limited company. New companies can be purchased in a ready-made form usually referred to as 'off the shelf' companies. These types of formation are becoming less frequent, however, as the speed of which companies can now be created takes, on average, 3 hours rather than days. There are additional administrative factors in running a company, such as statutory accounts preparation, company secretarial obligations and PAYE (Pay as You Earn) procedures. A big advantage of owning a limited company is that your personal liability is limited to the nominal share capital you have invested.

Limited liability partnership

A limited liability partnership is legally similar to a company. It is administered like a company in all aspects except its taxation. In this, it is treated like a partnership. Therefore you have the limited liability, administrative and statutory obligations of a company but not the taxation and national insurance flexibility. They are particularly suitable for medium and large-sized partnerships.

Co-operative

A co-operative is a mutual organisation owned by its employees. One example of such an organisation is the John Lewis Partnership. These structures need specialist advice.

How we can help

We will be happy to discuss your plans and the most appropriate business structure with you. The most appropriate structure will depend on a number of factors including consideration of taxation implications, the legal entity, ownership and liability.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Capital Allowances

Overview

The cost of purchasing capital equipment in a business is not a revenue tax deductible expense. However tax relief is available on certain capital expenditure in the form of capital allowances.

The allowances available depend on what you are purchasing. Here is an overview of the types of expenditure which qualify for capital allowances and the amounts available.

Capital allowances are not generally affected by the way in which the business pays for the purchase. So where an asset is acquired on hire purchase (HP), allowances are generally given as though there were an outright cash purchase and subsequent instalments of capital are ignored. However finance leases, often considered to be an alternative form of 'purchase' and which for accounting purposes are included as assets, are generally denied capital allowances. Instead the accounts depreciation is usually allowable as a tax deductible expense.

Any interest or other finance charges on an overdraft, loan, HP or finance lease agreement to fund the purchase is a revenue tax deductible business expense. It is not part of the capital cost of the asset.

If, alternatively, a business rents capital equipment, often referred to as an operating lease, then as with other rents this is a revenue tax deductible expense so no capital allowances are available.

Plant and machinery

This includes items such as machines, equipment, furniture, certain fixtures, computers, cars, vans and similar equipment you use in your business.

Note there are special rules for cars and certain 'environmentally friendly' equipment and these are dealt with below.

Acquisitions

The Annual Investment Allowance (AIA) provides a 100% deduction for the cost of most plant and machinery (not cars) purchased by a business up to an annual limit and is available to most businesses. Where businesses spend more than the annual limit, any additional qualifying expenditure generally attracts an annual writing down allowance (WDA) of 18% (or 6% for the special rate pool) depending on the type of asset. The maximum amount is currently set at £1 million. Cars are not eligible for the AIA, so will only benefit from the WDA (see special rules for cars).

Please contact us before capital expenditure is incurred for your business in a current accounting period, so that we can help you to maximise the AIA available.

Full expensing

From 1 April 2023 companies investing in qualifying new and unused plant and machinery benefit from first year capital allowances.

Under this measure, a company is allowed to claim:

- a first year allowance of 100% on most new and unused plant and machinery expenditure that ordinarily qualifies for 18% main rate WDAs (Full Expensing).
- a first year allowance of 50% on most new and unused plant and machinery expenditure that ordinarily qualifies for 6% special rate WDAs.

The relief specifically excludes expenditure on cars, and most plant and machinery for leasing. The relief is only available for companies and not for unincorporated businesses.

Pooling of expenditure and allowances due

- Expenditure on most items of plant and machinery are pooled rather than each item being dealt with separately with most items being allocated to the main rate pool.
- A WDA on the main rate pool of 18% is available on qualifying expenditure incurred in the current period not covered by the AIA or not eligible for AIA as well as on any balance of expenditure remaining from earlier periods.
- Certain expenditure on buildings fixtures, known as integral features (eg lighting, air conditioning, heating, etc) is eligible for a 6% WDA so is allocated to a separate 'special rate pool', though integral features do qualify for the AIA.
- Allowances are calculated for each accounting period of the business.
- When an asset is sold, the sale proceeds (or original cost if lower) are brought into the relevant pool. If the proceeds exceed the value in the pool, the difference is treated as additional taxable profit for the period and referred to as a balancing charge.

Structures and Buildings Allowance

Expenditure incurred on business-related buildings and structures will attract an annual 3% writing down allowance on a straight-line basis. This allowance is designed to encourage investment in the construction of new structures and buildings that are intended for commercial use, the necessary works to bring them into existence and the improvement of existing structures and buildings, including the cost of converting existing premises for use in a qualifying activity. Neither land nor dwellings are eligible for relief. Where there is mixed use, for example, between commercial and residential units in a development, the relief is reduced by apportionment. No relief is available for work spaces within domestic settings, such as home offices.

Special rules for cars

There are special rules for car expenditure. Cars are not eligible for the AIA or full expensing. The treatment of car expenditure depends on when it was acquired and its CO_2 emissions.

The following rules apply for cars:

Type of car purchase	What you can claim
New zero emission car purchased before 1 April 2026 (6 April 2026 for income tax)	100% first year allowances
Second hand electric car	Main rate allowances (ie 18% WDA)
Not exceeding 50 g/km CO_2 emissions	Main rate allowances (ie 18% WDA)
Exceeding 50 g/km CO_2 emissions	Special rate allowances (ie 6% WDA)

Non-business use element

Cars and other business assets that are used partly for private purposes, by the proprietor of the business (ie a sole trader or partners in a partnership), are allocated to a single asset pool to enable the private use adjustment to be made. For cars, the rate of WDA claimable in the single asset pool will still depend on the CO_2 emissions of the car. Private use of assets by employees does not require any restriction of the capital allowances.

The allowances are computed in the normal way, however, only the business use proportion is allowed for tax purposes. This means that the purchase of a new zero emission car which costs £15,000 with 80% business use will attract an allowance of £12,000 (£15,000 x 100% x 80%) when acquired.

On the disposal of a private use element car, any proceeds of sale (or cost if lower) are deducted from any unrelieved expenditure in the single asset pool. Any shortfall can be claimed as an additional one off allowance but is restricted to the business use element only. Similarly any excess is treated as a taxable profit but only the business related element.

Short life assets

For equipment you intend to keep for only a short time, you can choose (by election) to keep such assets outside the normal pool, with the expenditure going into a single asset pool. The allowances on them are calculated separately and on sale if the proceeds are less than the balance of expenditure remaining, the difference is given as a further capital allowance. This election is not available for cars or integral features.

The asset is transferred into the main pool if it is not disposed of by the eighth anniversary of the end of the period in which it was acquired.

Long life assets

These are assets with an expected useful life in excess of 25 years when new. These assets are combined with integral features in the special rate pool.

There are various exclusions including cars and the rules only apply to businesses spending at least £100,000 per annum on such assets.

Other assets

Capital expenditure on certain other assets qualifies for relief. Please contact us for specific advice on areas such as qualifying expenditure in respect of enterprise zones, Freeports and research and development.

Nunn Hayward
Chartered Accountants

Claims

Unincorporated businesses and companies must both make claims for capital allowances in tax returns.

Claims may be restricted where it is not desirable to claim the full amount available - this may be to avoid other allowances or reliefs being wasted.

For unincorporated businesses the claim must normally be made within 12 months after the 31 January filing deadline for the relevant return.

For companies the claim must normally be made within two years of the end of the accounting period.

How we can help

The rules for capital allowances can be complex. We can help by computing the allowances available to your business, ensuring that the most advantageous claims are made and by advising on matters such as the timing of purchases and sales of capital assets. Please do contact us if you would like further advice.

Nunn Hayward
Chartered Accountants

FACTSHEET
Capital Gains Tax

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

A capital gain arises when certain capital (or 'chargeable') assets are sold at a profit. The gain is the sale proceeds (net of selling costs) less the purchase price (including acquisition costs).

What are the main features of the current system?

- Capital gains tax (CGT) is charged at the rate of 18% on gains (including any held over gains coming into charge) where net total taxable gains and income is below the income tax basic rate band threshold. This rate was 10% for disposals made before 30 October 2024. Gains or any parts of gains above the basic rate band are charged at 24% (20% for disposals before 30 October 2024) with a few exceptions which are considered in the 'Exceptions to the CGT rates section' below.
- Business asset disposal relief (formerly known as Entrepreneurs' Relief) or Investors' Relief (IR) may be available on certain business disposals.

Business asset disposal relief (BADR)

BADR may be available for certain business disposals and has the effect of charging the first £1 million of gains qualifying for the relief at an effective rate of 14% for 2025/26 (10% for 2024/25). This rate will increase to 18% for 2026/27.

The relief is available to individuals on the disposal of:

- the whole, or part, of a trading business that is carried on by the individual, either alone or in partnership
- shares in an individual's 'personal company'
- assets used by a business or a company which has ceased within the last three years.

Where an individual makes a qualifying business disposal, relief may also be available on an 'associated disposal'. An 'associated disposal' is a disposal of an asset:

- used in a qualifying company or group of companies of the individual; or
- used in a partnership, where the individual is a partner.

Restrictions on obtaining the relief on an 'associated disposal' are likely to apply in certain specific situations. This includes the common situation where a property is in personal ownership but is used in an unquoted company or partnership trade in return for a rent. Under BADR the availability of relief is restricted where rent is paid.

Ownership period of two years

Ownership conditions apply throughout the period up to the date of disposal. For disposals on or after 6 April 2019, the necessary qualifying period of ownership is two years.

The 5% rule for company shareholders

To qualify for BADR, the company needs to be an individual's 'personal company' where the individual must:

- be a company employee or office holder
- hold at least 5% of the company's ordinary share capital and
- be able to exercise at least 5% of the voting rights.

For disposals on or after 29 October 2018, they must also satisfy one of the following tests:

- a distribution test – an individual is entitled to at least 5% of the company's profit available for distribution to equity holders and 5% of the assets available for distribution to equity holders in a winding up; or
- a proceeds test – an individual is entitled to at least 5% of the proceeds in the event of a disposal of the whole of the ordinary share capital of the company.

Dilution

From 6 April 2019 those shareholders whose holding in their company is reduced below the normal 5% qualifying level as a result of raising funds for commercial purposes by means of an issue of new shares may still obtain BADR. An election can be made which allows shareholders to crystallise a gain on their shares before the dilution occurs. This would be achieved by treating the shareholding as having been sold and immediately re-purchased at the prevailing market value. The election will have to be made in their tax return for the year in which the dilution takes place. The shareholder may also elect to defer the accrued gain until their shares are actually disposed of.

Careful planning will be required with BADR but if you would like to discuss BADR in detail and how it might affect your business, please do get in touch.

Investors' Relief (IR)

IR is aimed at external investors (other than certain employees or officers of the company) in unlisted trading companies. To qualify for the 14% CGT rate under 'investors' relief' (increasing from 10% in 2024/25 and to 18% in 2026/27, as for BADR) the following conditions need to be met:

- shares must be newly issued and subscribed for by the individual for new consideration
- be in an unlisted trading company, or an unlisted holding company of a trading group
- have been issued by the company on or after 17 March 2016 and have been held for a period of three years from 6 April 2016
- have been held continuously for a period of three years before disposal.

An individual's qualifying gains for IR are subject to a lifetime cap of £1 million (reduced from £10 million for qualifying disposals made on or after 30 October 2024).

Share identification rules

All shares of the same class in the same company are treated as forming a single asset, regardless of when they were originally acquired. However, 'same day' transactions are matched and there are '30 day' anti-avoidance rules.

Example

On 15 April 2024 Jeff sold 2000 shares in A plc from his holding of 4,000 shares which he had acquired as follows:
1,000 in January 1990
1,500 in March 2001
1,500 in July 2005
Due to significant stock market changes, he decided to purchase 500 shares on 30 April 2024 in the same company.

The disposal of 2,000 shares will be matched firstly with the later transaction of 500 shares as it is within the following 30 days and then with 1,500/4,000 (1,000+1,500+1,500) of the single asset pool on an average cost basis.

CGT annual exemption

Every tax year each individual is allowed to make gains up to the annual exemption without paying any CGT. The annual exemption for 2025/26 is £3,000 (£3,000 in 2024/25). Consideration should be given to ensuring both spouses/civil partners utilise this facility.

Exceptions to the CGT rates

The rates of CGT are generally 18% and 24%. However a 32% rate applies for all disposals of carried interest (18% and 28% for 2024/25).

Other more complex areas

Capital gains can arise in many other situations. Some of these, such as gains on Enterprise Investment Scheme and Venture Capital Trust shares, and deferred gains on share for share or share for loan note exchanges, can be complex. Please talk to us before making any decisions.

Other reliefs which you may be entitled to

And finally, many existing reliefs continue to be available, such as:

- private residence relief;
- business asset rollover relief, which enables the gain on a business asset to be deferred until a point in the future;
- business asset gift relief, which allows the gain on business assets that are given away to be held over until the assets are disposed of by the donee; and
- any unused allowable losses from previous years, which can be brought forward in order to reduce any gains.

How we can help

Careful planning of capital asset disposals is essential. We would be happy to discuss the options with you. Please contact us if you would like further advice.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Capital Gains Tax and the Family Home

The capital gains tax (CGT) exemption for gains made on the sale of your home is one of the most valuable reliefs from which many people benefit during their lifetime. The relief is well known: CGT exemption whatever the level of the capital gain on the sale of any property that has been your main residence. In this factsheet we look at the operation of the relief and consider factors that may cause it to be restricted.

Several important basic points

Only a property occupied as a residence can qualify for the exemption. An investment property in which you have never lived would not qualify.

The term 'residence' can include outbuildings separate from the main property, but this is a difficult area. Please talk to us if this is likely to be relevant to you.

'Occupying' as a residence requires a degree of permanence so that living in a property for say, just two weeks with a view to benefiting from the exemption is unlikely to work.

The exemption includes land that is for 'occupation and enjoyment with the residence as its garden or grounds up to the permitted area'. The permitted area is half a hectare including the site of the property which equates to about 1.25 acres in old money! Larger gardens and grounds may qualify but only if they are appropriate to the size and character of the property and are required for the reasonable enjoyment of it. This can be a difficult test. In a court case the exemption was not given on land of 7.5 hectares attached to a property. The owner said he needed that land to enjoy the property because he was keen on horses and riding. The courts decided that the owner's subjective liking for horses was irrelevant and, applying an objective test, the land was not needed for the reasonable enjoyment of the property.

Selling land separately

What if you want to sell off some of your garden for someone else to build on? Will the exemption apply? In simple terms it will if you continue to own the property with the rest of the garden and the total original area was within the half a hectare limit.

Where the total area exceeds half a hectare and some is sold then you would have to show that the part sold was needed for the reasonable enjoyment of the property and this can clearly be difficult if you were prepared to sell it off.

What if on the other hand you sell your house and part of the garden and then at a later date sell the rest of the garden off separately, say for development? Then you will not get the benefit of the exemption on the second sale because the land is no longer part of your main residence at the point of sale.

More than one residence

It is increasingly common for people to own more than one residence. However an individual can only benefit from the CGT exemption on one property at a time. In the case of a married couple (or civil partnership), there can only be one main residence for both. Where an individual has two (or more) residences then an election can be made to choose which should be the one to benefit from the CGT exemption on sale. Note that the property need not be in the UK to benefit although there are additional restrictions from April 2015 detailed below. Also foreign tax implications may need to be brought into the equation.

The election must normally be made within two years of the change in the number of residences and the potential consequences of failure to elect are shown in the case study that follows.

Furthermore the case study demonstrates the beneficial rule that allows CGT exemption for the last nine months of ownership of a property that has at some time been the main residence. Where the owner of the property is in long term care or a disabled person, and meets the necessary conditions, they benefit from a CGT exemption for the last 36 months of ownership.

Case study

Wayne, an additional rate taxpayer, acquired a home in 2009 in which he lived full-time. In 2013 he bought a second home and divided his time between the two properties.

- Either property may qualify for the exemption as Wayne spends time at each - ie they both count as 'residences'.
- Choosing which property should benefit is not always easy since it depends on which is the more likely to be sold and which is the more likely to show a significant gain. Some crystal ball gazing may be needed!
- The choice of property needs to be made by election to HMRC within two years of acquiring the second home. Missing this time limit means that HMRC will decide on any future sale which property was, as a question of fact, the main residence.

Wayne elects for the second home to be treated as his main residence for CGT purposes. In June 2024 he sells both properties realising a gain of say £100,000 on the first property and £150,000 on the second property.
The gain on the second property is CGT-free because of the election.
Part of the gain on the first property is exempt, namely that relating to:

- the four years before the second property was acquired (when the first property was the only residence); and
- the last nine months of ownership will qualify, providing the property has been the main residence at some time.

The overall gain on the first property would be time apportioned between the exempt period and the period remaining chargeable.

Can you claim PRR relief on your property?

A person's residence may not be eligible for Private Residence relief (PRR) for a tax year unless either:

- the person making the disposal was resident in the same country as the property for that tax year; or
- the person spent at least 90 midnights in that property.

The rules apply to both a UK resident disposing of a residence in another country and a non-resident disposing of a UK residence.

New reporting and payment requirement

It is important to note that from 6 April 2020 those liable to CGT on a residential property disposal must send a new standalone online return to HMRC and make a payment on account of the tax due within 60 days of completion of the sale. These requirements do not apply if the gains are covered by PRR.

Business use

More and more people work from home these days. Does working from home affect the CGT exemption on sale? The answer is simple - it may do!

Rather more helpfully the basic rule is that the exemption will be denied to the extent that part of your home is used exclusively for business purposes. In many cases of course the business use is not exclusive, your office doubling as a spare bedroom for guests for example, in which case there is not a problem.

Where there is exclusive business use then part of the gain on sale will be chargeable rather than exempt. However, it may well be that you plan to acquire a further property, also with part for business use, in which case the business use element of the gain can be deferred by 'rolling over' the gain against the cost of the new property.

Residential letting

Prior to 6 April 2020 letting relief gave up to £40,000 (£80,000 for a couple who jointly own the property) to someone letting part or all of a property which was their main residence or was their former main residence at some point in their period of ownership. However under the revised rules letting relief is only available where the owner and tenant share occupancy throughout the period of the let.

Periods of absence

Certain other periods of absence from your main residence may also qualify for CGT relief if say you have to leave your property to go and work elsewhere in the UK or abroad. The availability of the exemption depends on your circumstances and length of period of absence. Please talk to us if this is relevant for you. We would be delighted to set out the rules as they apply to your particular situation.

Trusts

The exemption is also available where a property is owned by trustees and occupied by one of the beneficiaries as their main residence.

Until December 2003 it was possible to transfer a property you owned but which was not eligible for CGT main residence relief into a trust for say the benefit of your adult children. Any gain could be deferred using the gift relief provisions. One of your children could then live in the property as their main residence and on sale the exemption would have covered the entire gain.

HMRC decided that this technique was being used as a mechanism to avoid CGT and so blocked the possibility of combining gift relief with the main residence exemption in these circumstances.

How we can help

The main residence exemption continues to be one of the most valuable CGT reliefs. However the operation of the relief is not always straightforward nor its availability a foregone conclusion. Advance planning can help enormously in identifying potential issues and maximising the available relief. We can help with this. Please contact us if you have any questions arising from this factsheet or would like specific advice relevant to your personal circumstances.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Cars for Employees

The current regime for taxing employer provided cars (commonly referred to as company cars) is intended:

- to encourage manufacturers to produce cars which are more environmentally friendly; and
- to give employee drivers and their employers a tax incentive to choose more fuel-efficient and environmentally friendly vehicles.

Below we set out the main areas of importance. Please do not hesitate to contact us if you require further information.

The rules

Employer provided cars are taxed by reference to the list price of the car but graduated according to the level of its carbon dioxide (CO_2) emissions.

In addition, the government has reduced the percentages which apply to lower emissions cars and introduced new performance-related bands for hybrid vehicles with emissions up to 50 g/km depending on how far the hybrid vehicle can travel under electric power.

Percentage charges

2025/26	
CO2 emissions (g/km)	**% of list price taxed**
0	3
1 – 50 (split by zero-emission miles)	
More than 130 70 - 129 40 - 69 30 - 39 Less than 30	3 6 9 13 15
51 - 54	16
55 - 59	17
60 - 64	18
65 - 69	19
70 - 74	20
75 - 79	21
80 - 84	22
85 - 89	23
90 - 94	24

For every additional 5g thereafter add 1% until the maximum percentage of 37% is reached.

Example

David has a company car, a Hyundai Ioniq, which had a list price of £28,395 when it was provided new on 6 April 2025. The CO_2 emissions are 26 g/km and its electric range is 39 miles. David's BiK for 2025/26 is: £28,395 x 13% = £3,691.35.

Diesels

Diesel cars emit less CO_2 than petrol cars and so would be taxed on a lower percentage of the list price than an equivalent petrol car. However, diesel cars emit greater quantities of air pollutants than petrol cars and therefore a supplement of 4% of the list price generally applies to diesel cars (unless the car is registered on or after 1 September 2017 and meets the Euro 6d emissions standard). The maximum charge for diesel cars is capped at 37%.

The diesel supplement does not apply to hybrid cars.

Example

A diesel car that would give rise to a 22% charge on the basis of its CO_2 emissions will instead be charged at 26% for 2025/26.

Obtaining emissions data

The Vehicle Certification Agency produces a free guide to the fuel consumption and emissions figures of all new cars. It is available on the internet at www.carfueldata.direct.gov.uk. These figures are not however necessarily the definitive figures for a particular car. The definitive CO_2 emissions figure for a particular vehicle is recorded on the Vehicle Registration Document (V5).

The list price

- The list price of a car is the price when it was first registered including delivery, VAT and any accessories provided with the car. Accessories subsequently made available are also included (unless they have a list price of less than £100).
- Employee capital contributions up to £5,000 reduce the list price.

Employer's Class 1A national insurance contributions

The benefit chargeable to tax on the employee is also used to compute the employer's liability to Class 1A (the rate is 15% for 2025/26).

Private fuel

There is a further tax charge where a company car user is supplied with or allowed to claim reimbursement for fuel for private journeys.

The fuel scale charge is based on the same percentage used to calculate the car benefit. This is applied to a set figure which is £28,200 for 2025/26 (£27,800 for 2024/25). As with the car benefit, the fuel benefit chargeable to tax on the employee is used to compute the employer's liability to Class 1A. The combined effect of the charges makes the provision of free fuel a tax inefficient means of remuneration unless there is high private mileage.

The benefit is proportionately reduced if private fuel is not provided for part of the year. Taking action now to stop providing free fuel will have an immediate impact on the fuel benefit chargeable to tax and NICs.

Please note that if free fuel is provided later in the same tax year there will be a full year's charge.

Business fuel

No charge applies where the employee is solely reimbursed for fuel for business travel.

HMRC issues advisory fuel-only mileage rates for employer provided cars. Employers can adopt the rates in the following table but may pay lower rates if they choose.

HMRC updates these rates on a quarterly basis in March, June, September and December. The latest rates can be found at www.gov.uk/government/publications/advisory-fuel-rates.

Employees' use of own car

There is also a statutory system of tax and NIC free mileage rates for business journeys in employees' own vehicles.

The statutory rates are:

	Rate per mile
Up to 10,000 miles	45p
Over 10,000 miles	25p

Employers can pay up to the statutory amount without generating a tax or NIC charge. Payments made by employers are referred to as 'mileage allowance payments'. Where employers pay less than the statutory rate (or make no payment at all) employees can claim tax relief on the difference between any payment received and the statutory rate.

How we can help

We can provide advice on such matters as:

Please contact us for more detailed advice.

- whether a car should be provided to an employee or a private car used for business mileage
- whether employee contributions are tax efficient
- whether private fuel should be supplied with the car.

Nunn Hayward
Chartered Accountants

FACTSHEET
Cash Basis for the Self-Employed

Nunn Hayward
Chartered Accountants

We consider the rules for unincorporated businesses which, from 2024/25, require them to calculate their profits for tax purposes on a cash basis rather than the accruals basis.

However, it is important to note that, although cash basis is the default position for all self-employed businesses, they can make a one-off election to use the accruals basis.

Certain businesses, including Limited Liability Partnerships, those involving a corporate partner, Lloyd's underwriters and those eligible individuals who wish to continue to claim averaging of profits e.g. farmers cannot use the cash basis.

Accruals basis and cash basis

One example which illustrates the difference between the accruals basis and cash basis is that credit sales are included in the accruals basis accounts income despite the fact that the customer may not have paid for the goods or services by the end of the accounting period. Under the cash basis the business is taxed on its cash receipts less allowable cash payments made during the accounting period. Under the cash basis, credit sales are accounted for and taxed in the year in which they are paid for by the customer.

Key tax points

Cash receipts

Cash receipts literally mean all cash receipts that the business receives during the accounting period. As well as trading income this will also include the proceeds from the sale of any plant and machinery. If a customer does not pay what is owed by the accounting year end then it will not be taxable until the next year when it is actually received by the business.

What deductions are allowable?

In terms of what deductions can be claimed the main rules are that the expenses must have been actually paid in the accounting period as well as being incurred wholly and exclusively for the purposes of the trade.

As is the case with calculating taxable profits generally for a business no deductions are allowed for items which are of a capital nature such as the purchase of property. However, under the cash basis the costs of most plant and machinery can be included as a deduction. One key exception is the purchase of cars but capital allowances would remain available.

Relief for interest payments

Generally, interest costs will be deductible but no relief is available for a tax year for interest paid by a person on a relevant loan if the partnership to which the loan relates uses the cash basis for its property business.

A 'relevant loan' is a loan to buy plant or machinery for partnership use or to invest in a partnership unless it is used for purchasing a share in a partnership.

The use of losses

If the business incurs a loss then under the cash basis this can be used in the same manner as businesses using the accruals basis.

Joining and leaving cash basis

In order to ensure that income is taxed and expenses are relieved 'once and once only' special calculations are needed on entering or leaving the cash basis. There are also special capital allowances rules for such situations.

How we can help

In summary, as you can see there is more to the cash basis than might be expected and we would be happy to review your circumstances to see if this would be suitable for you and your business. Please contact us if you would like any further information.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Charitable Giving

If you are thinking of making a gift to charity, this factsheet summarises how to make tax-effective gifts. You can get tax relief on gifts to UK charities if you give:

- under Gift Aid
- through a Payroll Giving scheme, run by your employer; or
- by making a gift of certain shares or land.

Location of the charity

Charitable tax reliefs are available on gifts to UK charities and Community Amateur Sports Clubs (CASCs).

Gift Aid

If you pay tax, Gift Aid is a scheme by which you can give a sum of money to charity and the charity can normally reclaim basic rate tax on your gift from HMRC. That increases the value of the gift you make to the charity. So for example, if you give £10 using Gift Aid that gift is worth £12.50 to the charity.

You can give any amount, large or small, regular or one-off.

If you do not pay tax, you should not use Gift Aid.

How does a gift qualify for Gift Aid?

There are three main conditions. You must:

- make a declaration to the charity that you want your gift to be treated as a Gift Aid donation
- pay at least as much tax as the charities will reclaim on your gifts in the tax year in which you make them
- not receive excessive benefits in return for your gift (note that this rule also applies to persons connected with you).

Making a declaration

The Gift Aid declaration is the charity's authority to reclaim tax from HMRC on your gift. Usually, the charity will provide a written declaration form - one form can cover every gift made to the same charity or CASC for whatever period you choose, and can cover gifts you have already made (backdating your claim for up to four years) and/or gifts you may make in the future.

Donor benefit rules

The donor benefit rules that apply to charities that claim Gift Aid are determined by two percentage thresholds:

- the benefit threshold for the first £100 of the donation is 25% of the amount of the donation; and
- for larger donations, charities can offer an additional benefit to donors up to 5% of the amount of the donation that exceeds £100.

There is an overriding limit on the value of benefits received by a donor in a tax year as a consequence of donations to a charity, which is £2,500.

You can pay membership subscriptions to a charity through Gift Aid, provided any membership benefits you receive do not exceed certain limits. However, you can disregard free or reduced entry to view any property preserved, maintained, kept or created by a charity in relation to their charitable work.

Fundraising events

Where you have raised money which has simply been collected from other people and the other people have not made a declaration to the charity that they are taxpayers, the payment is not made under Gift Aid and generally no tax relief is due but see below regarding the Gift Aid Small Donations Scheme.

However, if you have been sponsored for an event, and each sponsor has signed a Gift Aid declaration, then the charity can recover the tax on the amounts covered by declarations. Charities may produce sponsorship forms for this.

Higher rate and additional rate taxpayers

If you are a higher/additional rate taxpayer, you can claim tax relief on the difference between the basic rate and higher/additional rate of tax (through your tax return). Relief is given either for the tax year of payment or in some cases it is possible to elect to receive the benefit of the higher/additional rate tax relief in the tax year prior to the year of the donation.

You should therefore keep a record of payments made under Gift Aid for each tax year.

The time limit for claiming tax relief on Gift Aid donations is four years. This time limit applies to the charity and the individual making the gift.

Example

Gift to charity £1,000
Charity reclaims tax £250
Total value of gift £1,250
Tax reduction for higher rate taxpayer is £250 and for additional rate taxpayer is £312.50.
So, a gift worth £1,250 to the charity could cost as little as £687.50.

Tainted donations to charity

Tax relief is denied on donations where one of the main purposes of the donation is to receive a tax advantage for the donor or connected person directly or indirectly from the charity. There is no monetary limit on the amount of the donation which may be caught by these rules.

Gift Aid Small Donations Scheme (GASDS)

Charities can use Charities Online for repayment of tax on other income and claims for top-up payments under the Gift Aid Small Donations Scheme (GASDS).

Charities and CASCs can claim a top-up payment on small donations without the need to collect Gift Aid declarations. The Gift Aid Small Donations Scheme (GASDS) applies where it is impractical to obtain a Gift Aid declaration. GASDS applies to donations of £30 or less made by individuals in cash or contactless payment. Charities are generally able to claim on small donations of up to £8,000 per annum which will result in a repayment of £2,000 for the charity or CASC. The GASDS claim must not be more than ten times the Gift Aid claim.

The GASDS is ideal for small cash donations or contactless payments received in collection boxes, bucket collections and during religious services.

Payroll Giving

A Payroll Giving scheme allows you to give regularly to charity from your pay and get tax relief on your gifts. The scheme requires your employer to set up and run a scheme. You authorise your employer to deduct your gift from your pay. Every month your employer pays it over to a Payroll Giving agency approved by HMRC. The agency then distributes the money to the charity or charities of your choice.

Because your employer deducts your gift from your pay or pension before PAYE is worked out, you pay tax only on the balance. This means that you get your tax relief immediately at your highest rate of tax. The amount you pay in national insurance contributions is not affected.

Gifts of shares or land

Capital gains tax (CGT)

You are not liable to CGT when you make a gift of assets, such as land or shares, to charity, even if the asset is worth more when you donate it than when you acquired it.

Income tax

You may also get income tax relief for these gifts to charity if they are 'qualifying investments' (see below).

The relief you can claim will usually be the market value of the shares, securities or land plus any incidental costs of disposal less the value of any consideration or benefits you receive.

Example

Alma owns quoted shares with a market value of £4,000 and an original cost to her of £1,000. Alma is a higher rate taxpayer.
Alma gives the shares to the charity. The charity will then sell the shares for £4,000 and keep the full sale proceeds.
Alma will not have a capital gain arising under CGT. She will be entitled to 40% income tax relief on the value of her gift, ie £1,600.
Although this sounds a very attractive relief, a comparison should be made of the alternative route of gifting to a charity by selling the investment and giving the net proceeds to charity under Gift Aid.

So, if Alma sold the shares, she would make a capital gain of £3,000 before considering any unused annual exemption. If, say, the CGT bill is nil, she could gift the proceeds of £4,000 under Gift Aid. The charity can reclaim tax of £4,000 x 20/80 = £1,000. Alma is entitled to higher rate relief on the gross gift of £1,000 (£4,000 x 100/80 x 40 - 20%).
Although Alma has received less tax relief (£1,000 compared to £1,600), the charity will have received £5,000 instead of £4,000 (£4,000 from Alma and £1,000 from HMRC).

Note corporation tax relief is also available for gifts of qualifying investments to charity.

If you would like further advice on this matter, please contact us.

Qualifying investments

In more detail, the following investments qualify for the tax relief:

- shares and securities listed or dealt in on the UK Stock Exchange, including the Alternative Investment Market
- shares or securities listed or dealt in on any overseas recognised stock exchange
- units in an authorised unit trust (AUT)
- shares in a UK open-ended investment company (OEIC)
- holdings in certain foreign collective investment schemes (foreign equivalents of AUTs and OEICs)
- a qualifying interest in land.

You should always contact the charity to ensure that it can accept the shares or the land. Indeed for land, the charity needs to give you a certificate stating that it has acquired the land.

The charity may be able to help you with the transfer procedure.

How we can help

If you would like to help a charity financially, it makes sense to do this in a tax efficient way. We can provide assistance in determining this for you. Please contact us for more detailed advice.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Charities - Trustees' Responsibilities

It is often considered an honour to act as a trustee for a charity and an opportunity to give something back to the community. However, becoming a trustee involves a certain commitment and level of responsibility which should not be underestimated.

Whether you are already a trustee for a charity, be it a local project or a household name, or are thinking of becoming involved, there are a number of responsibilities that being a trustee places upon you.

We outline the main responsibilities below, with a particular emphasis on accounting and audit requirements.

Background

The charities sector in England and Wales is generally overseen by the Charity Commission. The Commission is a government department that requires the registration of most charities.

The Commission plays an important role in the charity sector and is in place to give the public confidence in the integrity of charities.

All charities need to demonstrate that their aims are for the public benefit, initially as part of their application process to the Charities Commission and subsequently each year at the time they prepare their annual report.

A key part of the Commission's work is to provide advice to trustees. A great deal of useful advice can be found on the Commission's website, where there is a section dedicated to Setting up and running a Charity.

Types of charity

Charities can be created in a number of ways but are usually either:

- incorporated under the Companies Act 2006 or earlier (limited company charities)
- incorporated under the Charities Act 2011 (Charitable Incorporated Organisations - CIOs); or
- created by a declaration of trust (unincorporated charities).

Each of these charities needs to register and file their accounts with the Charity Commission and limited companies are additionally registered with Companies House. The type of the charity will determine the full extent of a trustee's responsibilities.

All charities are affected by the Charities Act 2011.

Who is a trustee?

The Charities Act 2011 defines trustees as 'persons having the general control and management of the administration of a charity'. This definition would typically include:

- for unincorporated charities and CIOs, members of the executive or management committee
- for limited company charities, the directors or members of the management committee.

Trustee restrictions and liabilities

In addition to the responsibilities of being a trustee, there are also a number of restrictions which may apply. These are aimed at preventing a conflict of interest arising between a trustee's personal interests and their duties as a trustee. These provide that generally:

- trustees cannot benefit personally from the charity, although reasonable out of pocket expenses may be reimbursed
- trustees cannot be employees of the charity.

There are limited exceptions to these principles. Where trustees do not act prudently, lawfully or in accordance with their governing document they may find themselves personally responsible for any loss they cause to the charity.

Trustees' responsibilities

The CC guidance CC3a, 'Charity Trustee: What's involved' explains what it means to be a trustee and how to become one. Trustees have full responsibility for the charity and are required to:

- follow the law and the rules in the charity's governing document
- act responsibly and only in the interests of the charity
- use reasonable care and skill and
- make well-informed decisions, taking advice when they need to.

The Charity Commission publication CC3, 'The essential trustee: what you need to know' provides more detailed guidance for both new and existing trustees. The guidance sets out trustees' duties and responsibilities under six headings:

- ensure your charity is carrying out its purposes for the public benefit
- comply with your charity's governing document and the law
- act in your charity's best interests
- ensure your charity is accountable
- manage your charity's resources responsibly
- act with reasonable care and skill.

Before you act as a charity trustee you must ensure that you are eligible. CC3a sets out who is eligible to be a charity trustee and highlights the rules for automatic disqualification. If you are disqualified from being a charity trustee you must not act unless you are authorised to do so by a waiver from the Charity Commission.

Trustees are under a legal duty to make sure that their charity's funds are only applied in the furtherance of its charitable objects. They need to be able to demonstrate that this is the case, so they should keep records which are capable of doing this.

Fundraising

The Fundraising Regulator was established to strengthen the system of charity regulation and restore public trust in fundraising. Trustees should be aware of the requirements of the Code of Fundraising Practice, which are many and various.

Accounting requirements

There are particular requirements for most charities to:

- keep full and accurate accounting records (and funds requirements are of particular importance here)
- prepare charity accounts and an annual report
- to ensure an audit or independent examination is carried out
- to submit an annual return, annual report and accounts to the Charity Commission (and, for limited company charities, to Companies House).

The extent to which these requirements have to be met generally depends upon the type of charity and how much income is generated.

Funds requirements

An important aspect of accounting for charities is the understanding of the different 'funds' that a charity can have. The effective management and control of fundraising is an important trustee responsibility.

Essentially funds represent the income of the charity and there may be restrictions on how certain types of funds raised can be used. For example, a donation may be received only on the understanding that it is to be used for a specified purpose.

It is then the trustees' responsibility to ensure that such 'restricted' funds are used only as intended.

The annual report

The annual report is often a fairly comprehensive document, as legislation sets out the minimum amount of information that has to be included. The report generally includes:

- a trustees' report (which can double as a directors' report and a strategic report, if required for charitable companies)
- a statement of financial activities for the year
- an income and expenditure account for the year (for some charitable companies)
- a balance sheet
- a statement of cashflows
- notes to the accounts (including accounting policies).

Audit requirements

Whether or not a charity requires an audit will depend mainly upon how much income is received or generated and their year end. The income limit varies according to the type of charity as follows:

- all charities where income exceeds £1,000,000 in a financial year require an audit
- charities (both incorporated and unincorporated) require an independent examination where their income falls between £25,000 and £1,000,000 in their financial year
- where income is over £250,000 the independent examiner must be suitably qualified.

There are other criteria to consider, particularly regarding total assets, and we would be pleased to discuss these in more detail with you.

Reporting requirements

There is a comprehensive framework in place that determines how a charity's accounts should be prepared.

Unincorporated charities with income below £250,000 may prepare receipts and payments accounts.

All other charities must prepare accounts that show a 'true and fair' view. To achieve this the accounts generally need to follow the requirements of the Charities Statement of Recommended Practice (SORP). The SORP can be viewed at www.charitysorp.org/ and charities are able to build a bespoke version of the SORP dealing with their own circumstances.

How we can help

A trustee's responsibilities are many and varied. If you would like to discuss these in more detail or would like help in maintaining your charity's accounting records or preparing its annual report please contact us.

We are also able to advise on whether or not an audit or independent examination will be required and are able to carry this out.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Charities in Scotland - Trustees' Responsibilities

It is often considered an honour to act as a trustee for a charity and an opportunity to give something back to the community. However, becoming a trustee involves a certain commitment and level of responsibility which should not be underestimated.

Whether you are already a trustee for a charity, be it a local project or a household name, or are thinking of becoming involved, there are a number of responsibilities that being a trustee places upon you.

We outline the main responsibilities below, with a particular emphasis on accounting and audit requirements for Scottish charities.

Background

The charities sector in Scotland is generally overseen by the Office of the Scottish Charity Regulator (OSCR), also known as the 'Scottish Charity Regulator'. The OSCR is a non-ministerial government department which is the independent regulator and registrar for Scottish charities.

The OSCR plays an important role in the charity sector and is in place to give the public confidence in the integrity of charities and to help charity trustees to understand and comply with their legal duties.

A key part of the OSCR's work is to provide advice to trustees. A great deal of useful advice can be found on the OSCR website, where there is a section dedicated to charity trustees' duties.

Types of charity

The main legislation which charities in Scotland operate is the Charities and Trustee Investment Act (Scotland) 2005 (the 2005 Act). Charities can be created in a number of ways, but are usually either:

- incorporated under the Companies Act 2006 or earlier (limited company charities)
- incorporated under the 2005 Act through The Scottish Charitable Incorporated Organisations Regulations 2011 ('the General Regulations') (Scottish charitable incorporated organisations, SCIOs); or
- created by a declaration of trust (unincorporated charities).

Each of these charities needs to register and file their accounts with the OSCR and limited companies are additionally registered with Companies House.

The type of the charity will determine the full extent of a trustee's responsibilities.

Who is a trustee?

The 2005 Act defines trustees as 'persons having the general control and management of the administration of a charity'. This definition would typically include:

- for unincorporated charities and SCIOs, members of the executive or management committee
- for limited company charities, the directors or members of the management committee.

Charities need at all times to fulfil the charitable purpose for which they were created and it is the duty of all the trustees to ensure this.

Trustee restrictions and liabilities

In addition to the responsibilities of being a trustee, there are also a number of restrictions which may apply. These are aimed at preventing a conflict of interest arising between a trustee's personal interests and their duties as a trustee. These provide that generally:

- trustees cannot benefit personally from the charity, although reasonable out of pocket expenses may be reimbursed
- trustees should not be paid for their role as trustee.

There are limited exceptions to these principles which are set out in the 2005 Act. Where trustees do not act prudently, lawfully or in accordance with their governing document they may find themselves personally responsible for any loss they cause to the charity.

Trustees' responsibilities

The OSCR guidance 'Charity Trustee Duties' explains what it means to be a trustee. Trustees have full responsibility for the charity and a general duty to act in the interests of the charity. This means they should:

- operate in a way which is consistent with the charity's charitable purposes
- follow the law and the rules in the charity's governing document
- act with care and diligence
- manage any conflict of interest between the charity and any person or organisation that may appoint the charity's trustees.

Trustees have a duty to make sure that their charity's funds are only applied in the furtherance of its charitable objects. They need to be able to demonstrate that this is the case, so they should keep records which are capable of doing this.

Charity trustees must put the interests of the charity before their own needs or those of any relatives or business interests. Where a decision must be taken where one option would be in the interests of a trustee and another in that of the charity a trustee should make sure the other trustees know of the conflict and should not take part in the discussion or decision.

Charity Trustee Duties also provides information on some specific duties contained in the 2005 Act. The guidance sets out trustees' duties to:

- **updating your charity's details** - provide all the information needed to keep the Scottish Charity Register up to date
- **reporting to the OSCR** - comply with the statutory duty to supply certain information to the OSCR regarding annual monitoring, charity accounting and making changes to your charity
- **financial record keeping and recording** - keep proper accounting records and prepare an annual statement of account and annual report which are externally scrutinised and sent alongside the annual return to the OSCR
- **fundraising** - take control of how the charity raises funds
- **provide information to the public**.

These duties are shared by every individual in charge of the charity. No individual charity trustee (for example the Chair or Treasurer) has more responsibility than any other trustee.

Accounting requirements

The 2005 Act requires that charities:

- keep full and accurate accounting records (and funds requirements are of particular importance here)
- prepare charity accounts and an annual report on its activities
- ensure an audit or independent examination is carried out
- submit an annual return, annual report and accounts to OSCR (and, for limited company charities, to Companies House).

The extent to which these requirements have to be met generally depends upon the type of charity and how much income is generated.

Funds requirements

An important aspect of accounting for charities is the understanding of the different 'funds' that a charity can have.

Essentially funds represent the income of the charity and there may be restrictions on how certain types of funds raised can be used. For example, a donation may be received only on the understanding that it is to be used for a specified purpose.

It is then the trustees' responsibility to ensure that such 'restricted' funds are used only as intended.

Fundraising

The effective management and control of fundraising is also an important trustee responsibility. The Scottish Fundraising Standards Panel oversees fundraising standards and deals with fundraising complaints for Scottish registered charities in line with the Code of Fundraising Practice.

The annual report

The annual report is often a fairly comprehensive document, as legislation sets out the minimum amount of information that has to be included. The report generally includes:

- a trustees' report (which can double as a directors' report and a strategic report, if required for charitable companies)
- a statement of financial activities for the year
- an income and expenditure account for the year (for some charitable companies)
- a balance sheet
- a statement of cashflows

- notes to the accounts (including accounting policies).

Audit requirements

Whether or not a charity requires an audit will depend mainly upon how much income is received or generated and their year end:

- all charities where income exceeds £500,000 require an audit
- all other charities require an independent examination. Where 'accruals' accounts are prepared the independent examiner must be suitably qualified.

There are other criteria to consider, particularly regarding total assets, and we would be pleased to discuss these in more detail with you.

Reporting requirements

There is a comprehensive framework in place that determines how a charity's accounts should be prepared.

Unincorporated charities with income below £250,000 may prepare receipts and payments accounts, unless their governing document says otherwise.

All other charities must prepare accounts that show a 'true and fair' view and are referred to as 'accruals' accounts. To show a 'true and fair' view the accounts generally need to follow the requirements of the Charities Statement of Recommended Practice (SORP). The SORP can be viewed at www.charitysorp.org/ and charities are able to build a bespoke version of the SORP dealing with their own circumstances.

How we can help

A trustee's responsibilities are many and varied. If you would like to discuss these in more detail or would like help in maintaining your charity's accounting records or preparing its annual report please contact us.

We are also able to advise on whether or not an audit or independent examination will be required and are able to carry this out.

Nunn
Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Child Benefit Charge

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

The High Income Child Benefit Charge is a charge paid by a taxpayer who has income over £60,000 (for 2025/26 and 2024/25) in a tax year and either they or their partner have received Child Benefit for the year.

We set out below the main points of the charge and illustrate some of the practical issues.

Does this affect my family?

The High Income Child Benefit Charge is payable by a taxpayer who has 'adjusted net income' (explained later) in excess of £60,000 where either they or their partner, if they have one, are in receipt of Child Benefit. Where there is a partner and both partners have adjusted net income in excess of £60,000 the charge applies to the partner with the higher income.

Note that partner does not just include spouses or civil partners but also anyone you live with as if you were spouses/civil partners.

Practical issues

Some couples with fluctuating income levels may find that they are caught by the charge or perhaps that the partner who usually has the highest income does not actually end up paying the charge as the following example illustrates.

Example

Nicola, who receives Child Benefit, is employed as a teacher and earns £64,000 a year. Her husband Alan is a self-employed solicitor and his accounting year end is 31 March. He is late in submitting his books and records to his accountant for the year ended 31 March 2025. His results for that year will form his taxable profit for 2024/25. Nicola and Alan do not have any other income other than their earned income but his profits are generally in excess of £70,000. On this basis Nicola assumes that Alan will be liable for the charge.

In January 2026 Alan's accountant completes his tax return, files this in advance of the 31 January deadline and advises that his profit has reduced to £48,000 as he had experienced a number of bad debts.

As a result Nicola has the highest income for 2024/25 and is therefore responsible for paying the charge by 31 January 2026 and she will need to contact HMRC about this.

For couples who do not share their financial details there is a problem as it is difficult to accurately complete their tax return (or know if they need to contact HMRC to request one) if their own income is over £60,000 and Child Benefit is being claimed. Only the highest earning partner is liable so this needs to be determined.

Changes in circumstances

As the charge is by reference to weeks, the charge will only apply to those weeks of the tax year for which the partnership exists. If a couple breaks up, the partner with the higher income will only be liable for the period from 6 April to the week in which the break up occurs.

Conversely, if a couple comes together and Child Benefit is already being paid, the partner with the higher income will only be liable to the charge for those weeks from the date the couple start living together until the end of the tax year.

So what is the adjusted net income of £60,000 made up of?

It can be seen that the rules revolve around 'adjusted net income', which is broadly:

- income (total income subject to income tax before any Personal Allowances less specified tax reliefs e.g. trading losses and payments made gross to pension schemes)
- reduced by grossed up Gift Aid donations to charity and personal pension contributions which have received tax relief at source.

In some cases it may be that an individual may want to donate more to charity or make additional pension contributions: for example, to reduce or avoid the charge.

Inequity applies as household income is not taken into account.

Therefore, equalising income for those who have the flexibility to do so such as in family partnerships or family owner managed businesses may be important.

Nunn Hayward
Chartered Accountants

The charge

An income tax charge will apply at a rate of 1% of the full Child Benefit award for each £200 of income between £60,000 and £80,000. The charge on taxpayers with income above £80,000 will be equal to the amount of Child Benefit paid.

Example for 2025/26

The Child Benefit for two children amounts to £2,252 per annum. The taxpayer's adjusted net income is £70,000. The income tax charge will be £1,126. This is calculated as £2,252 x 50% (£70,000 - £60,000 = £10,000/£200 x 1%).

How does the administration operate?

In the self assessment system individuals are required to notify HMRC if they have a liability to income tax, capital gains tax (CGT) and the High Income Child Benefit Charge by 5 October following the tax year.

In addition, the charge is included in Pay as You Earn (PAYE) regulations so that it can be collected through PAYE, using a reduced tax code. It is also included in the definition of tax liability, so that it could potentially affect payments on account and balancing payments.

So should you continue to claim Child Benefit?

It is important to appreciate that Child Benefit itself is not liable to tax and the amount that can be claimed is therefore unaffected by the charge. It can therefore continue to be paid in full to the claimant even if they or their partner have a liability to the charge.

On the other hand Child Benefit claimants are able to elect not to receive the Child Benefit to which they are entitled if they or their partner do not wish to pay the charge. This will not affect the credit available (for state pension purposes) to certain people who stay at home to look after children (provided that an initial claim for child benefit was made when the child was born).

An election can be revoked if a person's circumstances change.

But I don't file a tax return?

It may well be that you and/or your partner have not filed a tax return before but this may need to change. You need to tell HMRC by 5 October following the end of the tax year if you think a charge may be due.

Guidance

HMRC have issued some guidance on the charge and the options available which can be found at www.gov.uk/child-benefit-tax-charge. This should be essential reading for many families.

How we can help

If you are unsure about anything to do with this charge or would like to discuss the matter further including how we might be able to minimise the tax charge which may apply to your family, please do not hesitate to contact us.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Community Amateur Sports Clubs

Local amateur sports clubs may wish to register with HMRC as Community Amateur Sports Clubs (CASCs) and benefit from a range of tax reliefs including Gift Aid. This factsheet considers the tax benefits and the registration requirements that clubs have to satisfy.

What kind of club can register?

Broadly a club seeking to register as a CASC must:

- be open to the whole community
- be organised on an amateur basis
- have as its main purpose the provision of facilities for, and promoting participation in, one or more eligible sports
- not exceed the income limit
- meet the management condition
- meet the location condition

A club will only be registered as a CASC if it can show that it already meets the conditions above and that it has a suitable governing document, which sets out the purpose and structure of your club.

Open to the whole community

A club is open to the whole community if:

- membership of the club is open without discrimination
- the club's facilities are open to members without discrimination, and
- any fees are set at a level that does not pose a significant obstacle to membership or use of the club's facilities.

Discrimination

Discrimination includes:

- discrimination on grounds of ethnicity, nationality, sexual orientation, religion or beliefs
- discrimination on grounds of sex, age or disability, except as a necessary consequence of the requirements of a particular sport.

Costs associated with membership and participation

Some objective tests have been introduced in order to determine whether costs of membership pose a significant obstacle:

- clubs where membership and participation costs total £520 or less a year will be considered to be open to the whole community
- clubs where membership costs (excluding participation costs) are above £1,612 a year will not be eligible
- clubs where membership and participation costs total more than £520 a year must make special provisions for members on a low or modest income to participate for £520 or less.

HMRC examples of how to compute membership and participation costs in their guidance at: www.gov.uk/government/publications/community-amateur-sports-clubs-detailed-guidance-notes/community-amateur-sports-clubs-detailed-guidance-notes

Organised on an amateur basis

A club is organised on an amateur basis if:

- it is non-profit making
- it provides for members and their guests only the 'ordinary benefits' of an amateur sports club
- it does not exceed the limit on paid players
- its governing document requires any net assets on the dissolution of the club to be applied for approved sporting or charitable purposes.

Non-profit making

A club is non-profit making if its governing document requires any surplus income or gains to be reinvested in the club. Distributions of club assets in cash or in kind cannot be made to members or third parties. This does not prevent donations to other clubs that are registered as Community Amateur Sports Clubs.

'Ordinary benefits' of an amateur sports club

The ordinary benefits of an amateur sports club include:

- provision of sporting facilities
- reasonable provision and maintenance of club-owned sports equipment

- provision of suitably qualified coaches
- provision for reimbursement of the costs of coaching courses
- insurance cover
- provision of medical treatment
- reimbursement of necessary and reasonable travel expenses and subsistence expenses incurred by players and officials travelling to away matches
- reasonable provision of post-match refreshments for players and match officials
- sale or supply of food or drink as a social benefit, arising incidentally from the sporting purposes of the club.

HMRC's guidance provides examples of what are necessary and reasonable travel and subsistence expenses.

Payments to members

A club is allowed to:

- enter into agreements with members for the supply of goods or services to the club; or
- employ and pay remuneration to staff who are club members.

So a CASC could pay members for services such as coaching or grounds maintenance, providing they are at rates no higher than the local commercial rates. A CASC can pay players to play for the club, but it must not pay more than £10,000 a year in total.

Eligible sports

Eligible sports are those on the list of recognised sports maintained by the National Sports Council. This can accessed using the following link:

https://www.sportengland.org/how-we-can-help/national-governing-bodies#the_recognition_process

Promoting participation in an eligible sport

A club must promote participation in an eligible sport and also provide facilities for playing the sport. To meet this objective, a club must ensure at least 50% of the members are 'participating members'. To be a participating member they must participate in the sporting activities of the club on a number of occasions that is equal to or more than the club's 'participation threshold'. The participation threshold is based on the number of weeks in the club's accounting period.

Some clubs have the main purpose of providing social leisure facilities. If this is the case they will not be able to register as CASCs, because these clubs are principally places for people to meet for social purposes even though some sporting activities take place.

The income limit condition

All CASCs must meet an income condition which aims to ensure that CASCs are mainly sports clubs rather than mainly commercial clubs with sports activities. CASCs can earn up to £100,000 a year from trading with non-members (such as the sale of food and drink) and property income (such as renting out the club's grounds or clubhouse). The £100,000 limit is reduced proportionately for accounting periods less than 12 months.

Clubs are able to generate unlimited income from transactions with their members (apart from property income from members which counts towards the £100,000 limit).

The management condition

The condition is met where a club's managers (i.e. the people who have general control and administration of the club) are fit and proper persons. The fit and proper person test is the same as that used in relation to charities, broadly that the persons will ensure that charity funds and tax reliefs are used only for charitable purposes.

The location condition

From 15 March 2023, the CASC regime only applies to UK clubs. Previously some EU CASCs would have qualified but were only able to claim reliefs until April 2024.

Tax reliefs for registered CASCs

CASCs can reclaim basic rate tax on Gift Aid donations made to them by individuals but CASC subscriptions are not eligible as Gift Aid payments.

CASCs are treated as companies for tax purposes. Therefore their profits may be chargeable to corporation tax.

CASCs can claim the following tax reliefs:

- exemption from Corporation Tax on UK trading profits where that trade's turnover is less than £50,000 a year
- exemption from Corporation Tax on UK property income where the total property income is less than £30,000 a year
- exemption from Corporation Tax on interest received
- exemption from Corporation Tax on chargeable gains.

It should be noted that if, after deducting any allowable expenses, the CASC's trading or property income is more than the relief limits, corporation tax will be due on the full amount.

In addition, to be eligible for the reliefs, CASCs must use all of its income and gains for qualifying purposes, that is, promoting participation and providing facilities for the CASC's eligible sport.

Example

A CASC runs a trade with turnover of £60,000 and profit of £6,000. Because the turnover exceeds the £50,000 limit the profit is taxable. The CASC also has gross rental income of £12,000. The gross rental income is below the exemption limit and is not taxable.

Claiming the tax reliefs

Where a CASC receives a Company Tax return, relief can be claimed in the return. However most clubs do not receive a tax return each year. If the club has had tax deducted from its income or if it has received Gift Aid payments, it can claim a repayment from HMRC. Note that if a CASC needs to pay tax, for instance, on income or gains that do not qualify for relief, the CASC must submit a Company Tax return.

Corporate Gift Aid to the rescue?

Corporate Gift Aid is available for donations of money made by companies to CASCs. Companies are therefore allowed to claim tax relief on qualifying donations they make.

The corporate Gift Aid provisions encourage companies to make donations to clubs which are registered as CASCs but also encourage clubs with high levels of commercial trading to potentially benefit from CASC status.

A club with significant trading receipts may well not qualify for CASC status because the trading receipts exceed the income limit. It could however set up a trading subsidiary to be owned and controlled by the club, which then donates its profits to the CASC. The donation received by the club will not be treated as a trading receipt and so the club could apply for CASC status. The trading subsidiary will be subject to corporation tax on its profits, but may be able to benefit from corporate Gift Aid on the donations made to the club which to reduce profits chargeable to corporation tax.

There are however other issues for the club to consider in the establishment of a trading subsidiary.

Non-domestic rates relief

CASCs in England and Wales get the same relief that would be available to a charity (80% mandatory relief) where the CASC property is used for charitable purposes. For CASCs in Scotland, CASCs can apply for 80% relief if the property is mostly used by that club or other CASC.

Relief for donors

- Individuals can make gifts to CASCs using the Gift Aid scheme. We have a separate factsheet giving further details of the Gift Aid scheme.
- Businesses giving goods or equipment that they make, sell or use get relief for their gifts.
- Corporate Gift Aid.
- Gifts of chargeable assets to CASCs are treated as giving rise to neither a gain nor a loss for capital gains purposes.

How we can help

Please contact us if you have any queries relating to the rules on CASCs. We would be delighted to help.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Companies - Tax Saving Opportunities

01753 888211 | info@nhllp.com | www.nhllp.com

Due to the ever changing tax legislation and commercial factors affecting your company, it is advisable to carry out an annual review of your company's tax position.

Pre-year end tax planning is important as the current year's results can normally be predicted with some accuracy and time still exists to carry out any appropriate action.

We outline below some of the areas where advance planning may produce tax savings.

For further advice please do not hesitate to contact us.

Corporation tax

Advancing expenditure

Expenditure incurred before the company's accounts year end may reduce the current year's tax liability.

In situations where expenditure is planned for early in the next accounting year, the decision to bring forward this expenditure by just a few weeks can advance the related tax relief by a full 12 months.

Examples of the type of expenditure to consider bringing forward include:

- building repairs and redecorating
- advertising and marketing campaigns
- redundancy and closure costs.

Note that payments into company pension schemes are only allowable for tax purposes when the payments are actually made as opposed to when they are charged in the company's accounts.

Consider whether any additional remuneration/bonuses should be voted to directors in respect of the current accounting period (these can be paid up to nine months after the year end although the PAYE and National Insurance may need to be paid sooner than that).

In addition, relief for qualifying charitable donations is available in the accounting period in which they are paid so consider bringing forward payment of donations to obtain the tax relief sooner.

Capital allowances

Consideration should also be given to the timing of capital expenditure on which capital allowances are available to obtain optimum reliefs.

Single companies irrespective of size are able to claim an Annual Investment Allowance (AIA) which provides 100% relief on expenditure on plant and machinery (excluding cars) up to a limit of £1 million.

Groups of companies have to share the AIA. Expenditure on plant and machinery in excess of the AIA is generally eligible for writing down allowance (WDA) of 18% (or 6% for capital expenditure on integral features).

Limited allowances are also available for qualifying expenditure on business-related buildings and structures.

Full Expensing

Companies investing in qualifying new and unused plant and machinery can benefit from first year capital allowances.

Under this measure, a company will be allowed to claim:

- A first year allowance of 100% on most new and unused plant and machinery expenditure that ordinarily qualifies for 18% main rate writing down allowances (Full Expensing).
- A first year allowance of 50% on most new and unused plant and machinery expenditure that ordinarily qualifies for 6% special rate writing down allowances.

The relief specifically excludes expenditure on cars, and most plant and machinery for leasing. The relief is only available for companies and not for unincorporated businesses.

Trading losses

Companies incurring trading losses generally have three main options to consider in utilising these losses:

- they can be set against any other income (for example bank interest) or capital gains arising in the current year
- they can be carried back for up to one year and set against total profits

- they can be carried forward and set against profits arising from different types of income in future years.

The use of a company's or group's carried forward trading losses is restricted to an allowance of up to £5 million, plus 50% of remaining profits after deduction of the allowance.

For those companies within a group, current period trading losses can also be surrendered as group relief to reduce taxable profits in other group companies with corresponding accounting periods. For losses arising after 1 April 2017, companies can claim group relief for losses that have been carried forward, subject to the restriction noted above.

Extracting profits

Directors/shareholders of family companies may wish to consider extracting profits in the form of dividends rather than as increased salaries or bonus payments.

This can lead to substantial savings in National Insurance contributions (NICs).

Note however that company profits extracted as a dividend remain chargeable to corporation tax.

Dividends

From the company's point of view, timing of payment is not critical, but from the individual shareholder's perspective, timing can be an important issue. A dividend payment in excess of the Dividend Allowance which is delayed until after the tax year ending on 5 April may give the shareholder an extra year to pay any further tax due. The Dividend Allowance is £500 for 2025/2026.

The deferral of tax liabilities on the shareholder will be dependent on a number of factors. Please contact us for detailed advice.

Loans to directors and shareholders

If a 'close' company (broadly, one controlled by its directors or by five or fewer participators) makes a loan to a participator, this can give rise to a tax liability for the company. (A participator is any person having a share or interest in the capital or income of the company.)

If the loan is not settled within nine months and a day of the end of the accounting period, the company is required to make a payment to HMRC equal to 33.75% of the loan advanced. The money is not repaid to the company until nine months and a day after the end of the accounting period in which the loan is repaid.

A loan to a participator who is also a director or an employee may also give rise to a tax liability on the individual on the benefit of a loan provided at less than the market rate of interest.

Rates of tax

The main rate of corporation tax is 25% for companies with profits over £250,000. Companies with profits of £50,000 or less pay corporation tax at 19%. Companies with profits between £50,000 and £250,000 pay tax at the main rate reduced by a marginal relief, providing a gradual increase in the effective corporation tax rate.

Self assessment

Under the self assessment regime most companies must pay their tax liabilities nine months and one day after the year end.

In general, companies which have profits in excess of £1.5m have to pay tax in quarterly instalments. This limit is reduced if the company is a member of a group. If you require any further information on quarterly instalment payments, we have a factsheet which summarises the system.

Corporation tax returns must be submitted within twelve months of the accounting period end and are required to be submitted electronically. In cases of delay or inaccuracies, interest and penalties will be charged.

Capital gains

Companies are chargeable to corporation tax on their capital gains less allowable capital losses. Brought forward capital losses can be offset against capital gains, but relief is subject to the same restrictions as those for brought forward trading losses.

Planning of disposals

Consideration should be given to the timing of any chargeable disposals to minimise the tax liability. This could be achieved (depending on the circumstances) by accelerating or delaying disposals and the availability of losses and other reliefs.

Purchase of new assets

It may be possible to defer a capital gain if the sale proceeds are reinvested in a new, qualifying replacement asset. This is called 'Business Asset Rollover Relief' and allows the company to defer being taxed on the gain on disposal of the original asset until the new asset is sold.

There are conditions to the relief, including that the replacement asset must be acquired in the four year period beginning one year before the disposal.

How we can help

Tax savings can only be achieved if an appropriate course of action is planned in advance. It is therefore vital that professional advice is sought at an early stage. We would welcome the chance to tailor a plan to your specific circumstances. Please do not hesitate to contact us.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Company Secretarial Duties

01753 888211 | info@nhllp.com | www.nhllp.com

Company legislation provides an opportunity for a business organisation to benefit from the protection of limited liability, separating the legal persona of the organisation from the individuals who own and run it.

In return for this protection, a certain amount of information about a company must be publicly available including, for example, the company's annual accounts, registered office address and details of directors, its company secretary (if there is one) and its members. Historically, providing and updating this information has been the job of the company secretary.

Do all companies need a company secretary?

Since April 2008, unless there is an express requirement in the company's articles of association, the Companies Act 2006 no longer requires private limited companies ('limited' or 'ltd') to appoint a company secretary. Even if the articles do require it, it is relatively straightforward for the directors of a company to amend the provision, subject to shareholder agreement.

Although there is no requirement for private companies to employ a company secretary if their articles do not require it, in practice many still choose to do so. The important tasks that would normally fall to a company secretary, including shareholder administration and communication, corporate governance and statutory compliance must still be done. In the absence of a company secretary, company law states that directors must take on this responsibility. As a result, many private companies continue to employ a company secretary in order to reduce the administrative and corporate governance burdens that are otherwise placed on their directors.

Public limited companies (whose names end in 'plc') are still required to have a company secretary who must have "the requisite knowledge and experience" achieved by having a professional qualification (accountancy or company secretarial), a legal qualification, recent experience or other competencies which lead the directors to believe they can act as company secretary.

The company secretary is an officer of the company. This means that they may be criminally liable for company defaults: for example, failing to file a document in the time allowed or failing to submit the company's annual return.

If your private company does not want to have a company secretary

If a private company decides not to have a company secretary then it should check its Articles of Association to ensure that its own regulations do not require it to appoint one. The company should inform Companies House of the resignation of any existing company secretary.

Where a private company chooses not to have a company secretary, any item that would normally be sent to the company secretary is treated as being sent to the company. Any duties which would normally be the responsibility of the company secretary will be carried out either by a director or a person authorised by the directors.

The company secretary and Companies House

A company secretary, or in the case of a private company the person responsible for company secretarial duties, will have regular dealings with Companies House as this is where public records about the company are held.

Most communications with Companies House are through Companies House Webfiling. Companies House is moving towards 100% online filing and on the area of the website where forms are available to download and print, there are prominent flags for areas that could instead be completed electronically.

Company secretarial duties

The duties of the person responsible for company secretarial matters are not defined specifically within company law but may be divided generally into three main areas:

- maintaining statutory registers (keeping the company's records up to date)
- completing and filing statutory forms (keeping the public record up to date)

- meetings and resolutions (making sure the company abides by both its internal regulations and the law).

Maintaining statutory registers

All companies must maintain up-to-date registers of key details. These include:

- a register of members
- a register of directors
- a register of charges
- a register of People with Significant Control (PSC register)*.

The details in these registers include, for example, names, addresses, dates of appointment and resignation (for directors) and for members, the number and type of shares held. This is not an exhaustive list.

Responsibility for maintenance of the company's statutory books and records is a duty that normally falls to the company secretary. It can be a time-consuming task that is often overlooked, but failure to keep the registers up-to-date can incur a penalty of up to £5,000.

The registers must be made available for inspection by the general public at the company's registered office or at a single alternative inspection location (SAIL) which must also be recorded at Companies House.

A company may choose to keep its directors' residential addresses private and to record a service address for them. If so it will need to keep an additional register showing the directors' residential addresses, which is not open to inspection by the general public.

* A person with significant control is an individual who ultimately owns or controls more than 25% of a company's shares or voting rights or who otherwise exercises control over a company or its management.

Maintaining statutory information at Companies House

Alternatively, a private company may also choose (elect) to keep some of the statutory registers on the public register at Companies House rather than at its registered office or SAIL. This will include its registers of directors, directors' usual residential addresses, secretaries, members and People with Significant Control. While this election is in force, the company does not need to keep its own separate statutory registers updated.

The general public can access company information through Companies House instead of visiting the registered office whilst this election is in force. This will include some information, such as members' addresses or directors' full dates of birth, which is not generally available on the public record for private companies.

Completing and filing statutory forms

The company must ensure that their record at Companies House is always up to date and contains current details of various statutory matters.

Many of the more common types of information can be submitted online by first registering at www.companieshouse.gov.uk. Alternatively, Companies House currently has a series of over 100 statutory forms to allow paper filing.

The company secretarial duties would extend to ensuring that, for example:

- The company's annual accounts are filed on time at Companies House. For a private limited company, under normal circumstances, this must be within 9 months of the end of the accounting year. A fine will be levied if the accounts are late.
- Once each year, Companies House will send each company a reminder to file their **'confirmation statement'**, which replaces the old Annual Return, and can be filed online or by downloading and completing on paper (for a higher fee). The company must 'check and confirm' that the information held at a given due date is accurate. The statement must be filed within 14 days of the end of the 'review period' and the due date will be specified on the reminder; if it is returned late or not returned at all, the company, director(s) and secretary (if appointed) may be prosecuted. This confirmation statement replaced the annual return from June 2016 and companies are permitted to file them more often than annually if they wish, though they would still only pay a fee annually (rather than every time they file).
- All changes to the way the company is organised need to be notified to Companies House within a specified period of between 14 and 28 days, depending on the change. The annual confirmation statement cannot be used to change this information and a separate form should be used. The most common forms include:
  - changes in directors, secretaries and their particulars

- a change of accounting reference date
- a change of registered office
- allotments of shares.

- If a company does not complete its confirmation statement, the Registrar might assume that the company is no longer carrying on business and take steps to strike it from the register.
- An updated version of the company's Articles of Association is filed whenever a change is made.
- The rules relating to the PSC register have already changed since this register was introduced. Initially, companies could update the public version of their PSC register annually as part of their confirmation statement, but now each change has to be updated on the register within 14 days and notified to Companies House within a further 14 days.

Charges

When a company gives security for a loan, either the lender or borrower should notify Companies House within 21 days by filling in the appropriate form and paying the statutory charge. Without timely registration the charge will be void - that is, the loan will still be repayable but the security given will not be valid. This does not apply to property acquired which is subject to a charge.

Good company secretarial practices ensure that any charges created are registered and that the company's credit profile is protected by removing the charge from the register as soon as the loan is repaid.

Meetings and resolutions

Company law sets out procedures for conducting certain aspects of company business through formal meetings where resolutions will be passed. When resolutions are passed, the company is bound by them (a resolution is an agreement or a decision taken by the members).

Here the company secretarial role would be to ensure that proper notice of meetings is given to those who are entitled to attend, to minute the proceedings and to ensure that copies of resolutions which affect the way the company is run are sent to Companies House within the relevant time frame.

Notice of company meetings

Members and auditors are entitled to notice of company meetings. For a private limited company, a general meeting notice of at least 14 days is needed. Notice can be in writing, by email or by means of a website (if certain conditions are met). However, a private company is no longer required to hold an Annual General Meeting (AGM), unless the company's Articles of Association make express provisions for holding AGMs.

If an existing company with an existing express provision for an AGM wishes to abolish this requirement, it will need to change its Articles by special resolution.

Resolutions

There are two types of resolution that may be passed: ordinary resolutions (passed by a simple majority of the members) and special resolutions (passed by a 75% majority of the members). In general, resolutions will be voted on by any members present at a meeting.

Private companies can take most decisions by written resolution. Such a resolution does not require a hard copy and can be passed by email. These resolutions, however, need to be passed by a majority of all members of the company, not just by those who return the voting form!

It is important that companies retain copies of all important decisions taken in the management of the company where they are taken at a meeting or by written resolution. Where these decisions change the way a company is run, a copy needs to be filed at Companies House.

Keeping your public record safe

Companies House has recently reported increasing levels of fraudulent filing of information. A favourite ploy is to change the company's registered office by submitting the appropriate form to Companies House. Once this has been accepted, the fraudsters can change directors or file false accounts without the company having any idea that they have been hijacked! They can then buy goods or obtain credit based on this false information.

Companies House is keen for companies to file their information online. This can be a very secure method, particularly if the company signs up for the enhanced security arrangements offered by their PROOF (protected online filing) system, which prevents the paper filing of certain forms.

Changes to come

The government published a white paper at the end of February 2022 setting out its position on reforming Companies House ahead of introducing legislation into Parliament. The key changes being proposed include expanding the role of the Registrar in order to maintain the integrity of information held on the public register, the introduction of identity verification for those forming, managing and controlling companies and improving the financial information that is available, including the requirement for iXBRL tagging of accounts being filed and the removal of the ability for small companies to file abridged or fileted accounts. It has been confirmed that there are no plans though to amend the deadlines for filing accounts which will come as a relief to many.

The Economic Crime and Corporate Transparency bill achieved Royal Assent on 26th October 2023. The first of the measures in the act were introduced in Spring 2024, however many of the changes need system development and secondary legislation before they're introduced. Over time, the measures introduced will lead to improved transparency and more accurate and trusted information on the registers.

Of particular relevance to company secretaries will be the requirements for anyone acting on behalf of a company to verify their identity in order to continue to interact in that capacity with Companies House. From 8 April 2025, individuals will need to verify their identity either directly with Companies House or via an Authorised Corporate Service Provider (ACSP).

How we can help

If you would like to discuss any of the issues raised above, or would like further information about the PSC register or the implications of keeping your statutory information on the public register, please do contact us.

We are able to provide comprehensive assistance with company secretarial matters such as:

Even though the need to appoint a company secretary for a private company has been abolished, there are a number of statutory procedures that companies must continue to comply with. We would be pleased to discuss these with you.

- the updating, maintenance and safekeeping of the company registers
- the processing and filing of minutes from directors' and shareholders' meetings
- the preparation and filing of resolutions
- the completion and filing of correct statutory forms
- the filing of the annual accounts
- confirmation statement filing.

Nunn Hayward
Chartered Accountants

FACTSHEET
Construction Industry Scheme

Nunn Hayward
Chartered Accountants

The Construction Industry Scheme (CIS) sets out special rules for tax and national insurance (NI) for those working in the construction industry.

Businesses in the construction industry are known as 'contractors' and 'subcontractors'. Under the CIS contractors deduct money from subcontractors payments and pay it to HMRC. Broadly, the purpose of these deductions is to count as advance payment of the subcontractor's tax and NI obligations.

Contractors and subcontractors

Contractors are those who pay subcontractors for construction work and include construction companies and building firms, government departments and local authorities. In addition any other business spending more than £3 million over a rolling 12 month period on construction is classed as a contractor for the purposes of the CIS.

Subcontractors are those businesses that carry out work for contractors.

Both contractors and subcontractors must register with HMRC. Many businesses act as both contractors and subcontractors and must register under both categories.

Work covered by the CIS

The CIS applies to construction work and also jobs such as site preparation, demolition, alterations, repairs, decorating and installing systems for heating, lighting, power, water and ventilation.

Certain jobs are excluded from CIS including architecture and surveying, scaffold hire (where no labour supplied), carpet fitting and delivering materials.

The same CIS rules apply if a business is based outside the UK but undertakes construction work as a contractor or subcontractor in the UK.

Contractor obligations

Monthly returns

Contractors have to make an online monthly return to HMRC:

- confirming that the employment status of subcontractors has been considered
- confirming that the verification process has been correctly dealt with
- detailing payments made to all subcontractors; and
- detailing any deductions of tax made from those payments.

The monthly return relates to each tax month (ie running from the 6th of one month to the 5th of the next). The deadline for submission is 14 days after the end of the tax month ie for the tax month 6 May to 5 June the deadline is 19 June.

Where a contractor has not made any payments to subcontractors in a tax month a return is not required but the business must tell HMRC that no return is due and when they start making payments to subcontractors again. Alternatively, a nil return could be made.

Employment status

A key part of the CIS is that the contractor has to make a monthly declaration that they have considered the status of the subcontractors and are satisfied that none of those listed on the return are employees.

Remember that employment status is not a matter of choice. The circumstances of the engagement determine how it is treated. Tests applied include the right of control, whether the subcontractor has to provide a personal service or could provide a substitute, the basis of payment and the mutuality of obligation.

The determination of employment status is not simple and HMRC has developed software known as the employment status indicator tool, which is available on their website, to address this matter but the software appears to be heavily weighted towards re-classifying subcontractors as employees. It should not be relied on and professional advice should be taken if this is a major issue for your business. Please talk to us if you have any particular concerns in this area.

Verification

If the subcontractor is self-employed, the contractor then potentially has to contact HMRC to check whether to pay a subcontractor gross or net. This process must be completed for new subcontractors and any previously used subcontractors who have not been included on a CIS return in the current or previous two tax years.

The verification procedure will establish which of the following payment options apply:

- gross payment (no tax deduction)
- a standard rate deduction of 20% for registered subcontractors
- a higher rate deduction of 30% for unregistered subcontractors

Payments made to subcontractors

To calculate the CIS deduction, the starting point is the gross amount of the subcontractors invoice. The following amounts paid for by the subcontractor may be deducted:

- VAT
- equipment which is now unusable ('consumable stores')
- fuel used, except for travelling
- equipment hired for this job ('plant hire')
- manufacturing or prefabricating materials
- materials (only if they paid for them directly)

The relevant CIS percentage is then applied to the amount remaining after allowable deductions.

Contractors have to provide a monthly payment and deduction statement to all subcontractors paid, showing the total amount of the payments and how much tax, if any, has been deducted from those payments. This must be provided within 14 days from the end of the tax month ie the same deadline as the monthly return.

Payments to HMRC

Contractors have to pay over all deductions made from subcontractors in any given tax month by the 19th following the end of the tax month to which the deductions relate. If payment is being made electronically, the date will be the 22nd. If the contractor is a company which itself has deductions made from its payments as a subcontractor, then the deductions made may be set against the company's liabilities for PAYE, NI and any CIS deductions it is due to pay over.

Penalties

The whole system is backed up by a series of penalties. These cover situations in which an incorrect monthly return is sent in negligently or fraudulently, failure to provide CIS records for HMRC to inspect and incorrect declarations about employment status. Late returns under the CIS scheme also trigger penalties which can be up to the greater of £3,000 and 100% of the tax where the return is over 12 months late and information is withheld deliberately and concealed.

Subcontractor obligations

If a subcontractor first starts working in the construction industry they will need to register for the CIS.

Subcontractors must give contractors their name, unique taxpayer reference and national insurance number (or company registration number) when they enter into a contract. This enables the contractor to undertake verification checks above.

Gross payment status

Subcontractors can apply to HMRC to receive payments gross rather than at the standard deduction rate of 20%.

The rules for subcontractors to be paid gross include a business test, a turnover test and a compliance test. To qualify for gross payment a subcontractor must:

- have paid their tax and National Insurance on time in the past
- do construction work (or provides labour for it) in the UK
- run the business through a bank account.

The turnover for the last 12 month, ignoring VAT and the cost of materials, must be at least:

- £30,000 for a sole trader
- £30,000 for each partner in a partnership, or at least £100,000 for the whole partnership
- £30,000 for each director of a company, or at least £100,000 for the whole company.

If the company is controlled by five people or fewer, each must have an annual turnover of £30,000.

Nunn Hayward
Chartered Accountants

How we can help

Please do get in touch if you would like further information about the CIS. We can advise on the CIS whether you are a contractor or a subcontractor.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Corporation Tax - Quarterly Instalment Payments

01753 888211 | info@nhllp.com | www.nhllp.com

Under corporation tax self assessment large companies are required to pay their corporation tax in quarterly instalments. These payments are based on the company's estimate of its current year tax liability.

Note that the majority of companies are not within the quarterly instalment payments regime and pay their corporation tax nine months and one day after the end of their accounting period.

We highlight below the main areas to consider when determining if your company needs to pay corporation tax in instalments.

Companies within the scope of quarterly instalment payments

Large companies

Large companies have to pay their corporation tax by quarterly instalments. A company is large if its profits for a 12 month accounting period exceed the 'upper limit' in force at the end of that accounting period. The upper limit is £1.5 million. However, if a company has profits in a 12 month accounting period which exceed £20 million, it will be considered 'very large' and separate rules apply (see below).

The main rate of corporation tax increased from 19% to 25% on 1 April 2023 for companies with profits over £250,000. The 19% rate became a small profits rate payable by companies with profits of £50,000 or less. Companies with profits between £50,000 and £250,000 pay tax at the main rate reduced by a marginal relief, providing a gradual increase in the effective corporation tax rate.

Group companies

When a company is a member of a group, the upper limit will be reduced. The rules on how this upper limit is reduced changed in April 2023.

For accounting periods beginning on or after 1 April 2023, the upper limit is reduced by dividing the upper limit by the number of associated companies (including itself). Broadly, a company is associated with another company if:

- one company has control of the other; or
- both companies are under the control of the same person or persons.

Control is usually defined by reference to ownership of share capital or voting rights. A company may be an 'associated company' regardless of where it is resident for tax purposes.

So, for example, if a company has two associated companies, the upper limit is reduced to £500,000.

Associated companies which did not carry on trades or business at any time during the accounting period are ignored. The upper limit is also proportionately reduced for accounting periods less than 12 months.

Any of the companies that have profits exceeding the upper limit are considered 'large' and will be subject to the quarterly instalment payments regime. Those which do not exceed the upper limit will not be subject to the regime.

Some companies have many group companies and are treated as being large even though their own corporation tax liability is relatively small. Where the corporation tax liability is less than £10,000 there is no requirement to pay by instalments. This £10,000 limit is reduced proportionately if the accounting period is less than 12 months.

Growing companies

A company does not have to pay its corporation tax by instalments if:

- its profits for that accounting period do not exceed £10 million; and
- it was not large for the previous year.

Where there are associated companies, the £10 million threshold is divided by the number of associated companies (including itself) at the end of the preceding accounting period. The threshold is also proportionately reduced for short accounting periods.

The effect of this exemption is that growing companies will not be instalment payers in the first accounting period in which they are large, unless the growth is substantial. It therefore gives them time to prepare for paying by instalments (but see below).

The pattern of quarterly instalment payments

A large company with a 12 month accounting period will pay tax in four equal instalments, in months seven, ten, 13 and 16 following the start of the accounting period. The first instalment payment is due six months and 13 days after the start of the accounting period, then each three months until the final instalment payment which is due three months and 14 days after the end of the accounting period. So, for a company with a 12 month accounting period starting on 1 January, quarterly instalment payments are due on 14 July, 14 October, 14 January next and 14 April next.

There are special rules where an accounting period lasts less than 12 months.

Pattern of payments for a growing company

If a growing company is defined as a large company for two consecutive years, the quarterly instalments payments regime will apply for the second of those years.

The transition from small to large is best illustrated by an example.
A company with a 31 December year end was large in 2024 for the first time (and had profits below the £10 million threshold) and is expected to be large in 2025. Its tax payments will be as follows:

- for the 2024 accounting period, the tax liability is payable nine months and one day after the end of the accounting period, i.e. on 1 October 2025.
- for the 2025 accounting period, 25% of its expected tax liability is due on each of 14 July 2025, 14 October 2025, 14 January 2026 and 14 April 2026.

As can be seen, the first instalment for 2025 is payable before the tax liability for 2024. It is therefore essential that budgets of expected taxable profits are prepared whenever a company becomes large in order to determine:

- whether the company will be large in the second year, and if so;
- what tax payments will have to be made in month seven of the second year.

Very large companies

For accounting periods beginning on or after 1 April 2019, 'very large' companies are required to pay corporation tax by instalments four months earlier than large companies. A company is a 'very large' company if its profits for a 12 month accounting profit are more than £20 million. Similar to large companies, this threshold is reduced proportionately if the accounting period is less than 12 months, and where the company has one or more associated companies. The same corporation tax liability threshold test applies as with large companies, whereby if a company's corporation tax liability is less than £10,000, the company is not considered 'very large' and does not need to pay corporation tax in instalments.

For very large companies with a 12 month accounting period, quarterly instalment payments are due on the 14th day of the third, sixth, ninth and twelfth months of the accounting period.

Working out quarterly instalment payments

A company has to estimate its current year tax liability (net of all reliefs and set offs) and then make instalment payments based on that estimate. This means that by month three for very large companies and by month seven for large companies, a company has to estimate profits for the remaining part of the accounting period.

A company's estimate of its tax liability will likely vary over time, particularly as an accounting period progresses, and each instalment payment should be calculated on the revised estimate. The system of instalment payments allows a company to make top-up payments – at any time – if it realises that the instalment payments it has made are inadequate. A company will normally be able to claim back all or part of any instalment payments already made if later it concludes that they ought not to have been made, or were excessive.

Interest and penalties

HMRC charges interest on late or underpaid instalments. Interest is calculated and charged only once a company has filed its company tax return, or HMRC has made a determination of its corporation tax liability and the normal due date has passed.

HMRC will pay a company interest on instalment payments that turn out to be unnecessary, payments made early or overpayments. This interest is calculated and charged retrospectively once the liability for an accounting period is established, which is normally when the tax return is submitted.

Rates of interest

Special rates of interest apply for the period from the due and payable date for the first instalment to the normal due date for corporation tax (nine months and one day from the end of the accounting period).

Thereafter, the interest rates change to the normal interest rates for under and overpaid taxes. This two-tier system takes into account the fact that companies will be making their instalment payments based on estimated figures but, by the time of the normal due date, should be fairly certain about their liability.

Interest received by companies is chargeable to tax, and interest paid by companies is deductible for tax purposes.

Penalties

A penalty may be charged if a company deliberately fails to make instalment payments or deliberately makes instalment payments that are too small.

Special arrangements for groups

There is a group payment arrangement facility which allows groups to make instalment payments on a group-wide basis, rather than company by company. This should help to minimise their exposure to interest.

How we can help

If you think your company may be affected by the quarterly instalment regime, procedures will need to be set in place to estimate the corporation tax liability.

We will be more than happy to provide you with assistance or any additional information required, so please do contact us.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Corporation Tax Self Assessment

Key features

The key features include:

- a company is required to pay the tax due in advance of filing a tax return
- a 'process now, check later' enquiry regime when the tax return is submitted
- the inclusion in the tax return, and in a single self assessment, of the liabilities of close companies on loans and advances to shareholders and others, and of liabilities under Controlled Foreign Companies legislation
- the requirement for companies to self assess by reference to transfer pricing legislation.

Practical effect of CTSA for companies

Notice to file

Every year, HMRC issues a notice to file to companies. In most cases, the return must be submitted to HMRC within 12 months of the end of the accounting period.

Filing your company tax return online

Companies must file their Company Tax return online. Their accounts and computations must also be filed in the correct format - inline eXtensible Business Reporting Language (iXBRL).

Unincorporated organisations and charities that don't need to prepare accounts under the Companies Act can choose to send their accounts in iXBRL or PDF format. However, they must still file their tax return online and any computations must be sent in iXBRL format.

Penalties

Penalties apply for late submission of the return of £100 if it is up to three months late and a further £100 if the return is over three months late. Additional tax geared penalties apply when the return is either six or twelve months late. These penalties are 10% of the outstanding tax due on those dates.

If the tax return is filed late three times in a row, the £100 penalties increase to £500 each.

Submission of the return

The return required by a Notice to File contains the company's self assessment, which is final, subject to:

- taxpayer amendment
- HMRC correction; or
- HMRC enquiry.

The company has a right to amend a return (for example, to change the claim to capital allowances). The company has 12 months from the statutory filing date to amend the return.

HMRC has nine months from the date the return is filed to correct any 'obvious' errors in the return (for example an incorrect calculation). This process should be a fairly rare occurrence. In particular the correction of errors does not involve any judgment as to the accuracy of the figures in the return. This is dealt with under the enquiry regime.

Enquiries

Under CTSA, HMRC checks returns and has an explicit right to enquire into the completeness and accuracy of any tax return. This right covers all enquiries, from straightforward requests for further information on individual items through to full reviews of a company's business including examination of the company's records.

The main features of the rules for enquiries under CTSA are:

- HMRC generally has a fixed period, of 12 months from the date the return is filed, in which to open an enquiry
- where the company is a member of a group (other than a small group), HMRC can open an enquiry up to 12 months from the due filing date
- if no enquiry is opened within this time limit and the company does not amend the return, the company's return becomes final - subject to the possibility of an HMRC 'discovery'
- HMRC will give the company formal notice when an enquiry opens
- HMRC is also required to give formal notice of the completion of an enquiry, and to state its conclusions
- a company may ask the Tribunal to direct HMRC to close an enquiry if there are no reasonable grounds for continuing it.

Discovery assessments

HMRC has the power to make an assessment (a 'discovery assessment') if information comes to light after the end of the enquiry period indicating that the self assessment was inadequate as a result of fraudulent or negligent conduct, or of incomplete disclosure. The normal time limit for HMRC to make a discovery assessment is four years after the end of the relevant tax period, but is extended to six years if the loss of tax was caused by careless behaviour and further extended to 20 years in certain instances such as deliberate behaviour or failure to notify chargeability.

Payment of tax

There is a single, fixed due date for payment of corporation tax which is nine months and one day after the end of the accounting period (subject to the Quarterly Instalment Payment regime for large and very large companies).

If the payment is late or is not correct, there will be late payment interest on tax paid late and repayment interest on overpayments of tax. These interest payments are tax deductible/taxable.

Credit interest

If a company pays tax before the due date, it receives credit interest on amounts paid early. Any interest received is chargeable to corporation tax.

Loans to shareholders

If a close company makes a loan to a participator (for example most shareholders in unquoted companies), the company must make a payment to HMRC if the loan is not repaid within nine months of the end of the accounting period. The amount of the tax is 33.75% for loans made from April 2022. The company can reclaim the Corporation Tax paid on a director's loan that has been repaid, written off or released), subject to specified time limits.

Additional rules for loans to shareholders

Further rules prevent the avoidance of the charge by repaying the loan before the nine month date and then effectively withdrawing the same money shortly afterwards.

A '30 day rule' applies if repayments totalling £5,000 or more are made and within 30 days, new loans or advances of at least £5,000 are made to the shareholder. The old loan is effectively treated as if it has not been repaid. A further rule stops the tax charge being avoided by just waiting 31 days before the company advances further funds to the shareholder. This is a complex area so please do get in touch if this is an issue for you and your company.

This tax is included within the CTSA system and the company must report loans outstanding to participators in the tax return.

How we can help

Do not hesitate to contact us if you require any further information.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Could I Really Make a Go of it?

Many people wonder deep down if they could really make a go of running their own business. It is not for everyone but the following is a list of attributes that successful business owners have. You do not need all of these characteristics but 'go-getters' have the majority of the qualities.

Qualities needed for success

To help you decide whether or not you are cut out for the enterprise culture, do you see in yourself any of the following? Are you:

- Positive - decisive and enthusiastic to succeed?
- Proactive - do you go out to get things or do you let them come to you?
- Determined - have you clearly-defined personal and business goals?
- Hardworking - do you mind being tied to the business seven days a week?
- Leadership - are you able to get the best from your colleagues and discipline them when necessary?
- Opportunist - will you see openings in your market and develop products for it?
- Self-critical - are you able to review your own performance and welcome advice from others?
- Flexible - could you change your products or methods quickly when necessary?

Erratic spending power

You must appreciate that in becoming self-employed you will lose the comfort of having a regular income. There will be times when you will have very positive cash flow but also times when money is short. Therefore during times of shortage you must be prepared to do without some luxuries for both yourself, your family and your business.

Making sure the family is with you

Starting a business is not easy and your family must both be on your side and also lend you support. Initially, especially in the early days, you could often find yourself away from your family for long, unsocial hours. Their understanding can be invaluable.

It can help to get your family involved in aspects of the business. There may be many jobs that can be easily delegated to them. It may also help on the financial side that they understand why there may be a tight control of the family finances.

Identifying your skills

You may be considering self-employment to exploit your talents. Running a business needs many skills. You should identify those things you are good at and those with which you will need help. You may wish to employ people with the necessary skills or, alternatively, consider contracting out certain tasks.

Researching your market

You must research as much as possible about the marketplace, your potential customers and competitors. It is vital to have knowledge of these areas when considering whether you have a potentially successful business proposition. You may wish to use published material or ask people who are likely to buy from you, either directly or by market survey.

You will need to find out about:

- Your target market - its size and whether it is expanding or contracting.
- Your customers - who are they? Where are they? What do they want? How much will they pay?
- Your competitors - what are their products, prices and market share?

How we can help

You will need to consider all the above very seriously, involve your family and make a trial business plan.

We can help you to plan and answer any questions you may have.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Credit Control

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

Obtaining new customers is great for business, unless they fail to pay you. If you fail to check that the customer can support the amount of credit you are granting, then commencing legal action when they do not pay can be a long, drawn out and potentially costly process.

If payment from the customer is not obtained and the goods or services have been provided, your cash flow is likely to be under pressure. Ensuring that customers pay on time will make managing your business easier.

If you fail to pay your suppliers because you have not been paid by your customer then you could also be damaging their business as well. This is not only bad business practice but could be regarded as corporate social irresponsibility. Treat your suppliers as you want your customers to treat you.

Factors to consider

The first thing you should do is get to know your customer. This should start before you take on a new customer and before you give them any credit. The bare minimum of what you should know is:

- the exact name of the customer and the trading address (consider using Companies House Webcheck service)
- their type of business structure, e.g. are they a sole trader, a partnership or a limited company?
- names and personal addresses of the proprietors if their structure is unincorporated (consider verifying letter headed paper to support this information)
- contact other suppliers to obtain references
- their credit rating through a credit agency.

Before you provide goods or services to any customer make sure you address the following:

- discuss and agree payment terms with the customer before accepting the order
- agree the terms in writing
- review any documentation from the customer where they try to change the agreed payment terms
- negotiate and agree payment terms with suppliers before accepting the order
- if there is a gap between customer and supplier payment terms, consider whether finance is available to bridge the gap (this will require an understanding of your working capital management)
- produce a cash flow forecast covering all expected income and expenses
- have a standard policy in place to ensure that payment terms cannot be altered without appropriate authorisation
- ensure that you have the right to apply late payment and interest charges on invoices.

After you have provided goods or services to a customer ensure that you:

- raise invoices promptly
- raise invoices accurately to ensure all items are included at the quoted prices
- include a reference number for the order and then quote this if any dispute arises
- have everything the customer requires on the invoice
- have a process for chasing invoices
- have a process for dealing with disputes
- keep a log of disputes to ascertain whether similar disputes for customers occur
- ensure that your invoices are fully compliant with HMRC for VAT purposes.

Consider your suppliers - treat them as you would like to be treated

Remember that not paying your suppliers on time is a bad business habit and it may result in a drop in your credit rating. You should:

- ensure you advise your suppliers of any disputes as soon as they occur
- pay on time by ensuring that your creditors' ledger is accurately aged; and

- keep your suppliers up to date with any issues you have with paying on time.

Some businesses unfortunately go 'bad' so you may wish to consider obtaining credit insurance where the business:

- would not be able to function if key customers went insolvent
- does not have the controls in place to ascertain whether a customer is likely to go insolvent
- is struggling to obtain information on prospective customers
- needs to improve credit management
- is considering a new market venture.

Businesses should consider obtaining factoring and financing options when:

- insufficient cash reserves are available to pay suppliers on time
- the business needs to grow
- the level of short term finance (including any overdraft facility) is insufficient
- staff do not have the right level of credit management skills.

How we can help

If you are struggling with your cash flow in these difficult times then we would be happy to discuss this further with you. Please contact us for more detailed advice.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Criminal Finances Act 2017

Nunn Hayward
Chartered Accountants

Under the Criminal Finances Act 2017 (CFA), companies and partnerships may be criminally liable for failing to prevent their employees from criminally facilitating tax evasion. A potential defence can be utilised, in cases where the business has put into place a system of reasonable prevention measures. Here, we take a look at the key aspects of the Act and the implications for your business.

Outlining the Act

Under the CFA, two criminal offences were introduced:

- **Domestic fraud offence**

The domestic fraud offence criminalises companies, partnerships and relevant bodies for failing to put into place reasonable prevention measures to stop their employees, agents or associated persons from facilitating tax evasion.

- **Overseas fraud offence**

This offence criminalises corporations trading within the UK who fail to implement reasonable procedures to prevent their employees, agents or representatives from facilitating tax evasion in another jurisdiction.

The rules apply to tax evasion committed both onshore and offshore, and are applicable to all taxes.

Three stages to the facilitation of tax evasion

Under the CFA, there are three stages that apply to both the domestic and the foreign tax evasion facilitation offences. Only the UK offence is considered here, additional requirements apply for the foreign offence.

Stage one

- The criminal evasion of tax (including national insurance contributions (NICs) is committed by a taxpayer.

Stage two

- The criminal facilitation of tax evasion is committed by an 'associated person' of the 'relevant body'.

Stage three

- The relevant body failed to prevent its employee from criminally facilitating tax evasion, or failed to implement reasonable measures to prevent the employee from committing the facilitation of tax evasion.

Under the CFA, only 'relevant bodies' and legal entities, such as incorporated bodies and partnerships, can commit the new offences. Natural persons, as opposed to legal persons, cannot commit the offences.

'Relevant body' refers to body corporates (including LLPs), and partnerships (whether incorporated or formed). Meanwhile, a person acts in the capacity of an 'associated person' if they are:

- an employee of a relevant body, acting in the capacity of an employee
- an agent of a relevant body, acting in the capacity of an agent
- any other person who performs or intends to perform services for or on behalf of a relevant body, who is acting in the capacity of an individual performing such services (for instance, a subcontractor).

Where stages one and two have been committed, the relevant body is deemed to have committed a corporate offence (subject to a reasonable defence being claimed).

Stage three, does not essentially alter what is considered to be a criminal act, but focuses on who is held accountable.

Making use of a 'reasonable defence'

Under the CFA, the onus is on the relevant body in question to demonstrate that it has implemented adequate procedures within the business to protect against the criminal facilitation of tax evasion. If the organisation can prove that it implemented stringent procedures, prosecution will be 'unlikely'.

A relevant body may utilise a defence whereby they can prove that, when the tax evasion facilitation offence was committed, it had appropriate prevention procedures in place.

'Prevention procedures' here refers to procedures designed to prevent persons acting in the capacity of someone associated with a relevant body from committing UK tax evasion facilitation offences. The Act does not require relevant bodies to have 'excessively burdensome' procedures, but it does require more than 'mere lip service'.

High risk

The government advises organisations within 'high risk' sectors, such as banks and financial services companies, carry out thorough risk assessments to establish the likelihood of their associated persons committing the criminal act of facilitation of tax evasion. It is recommended that such organisations follow government advice on the matter.

What does my business need to do?

HMRC has published guidance on the procedures that relevant bodies (ie. your organisation) should have in place in order to help prevent their associated persons from committing the criminal offence of the facilitation of tax evasion. This can be accessed at www.gov.uk/government/publications/corporate-offences-for-failing-to-prevent-criminal-facilitation-of-tax-evasion

The HMRC guidance is designed to help you understand the types of processes available.

The six 'guiding principles'

The government has outlined six 'guiding principles' that can be used to help inform preventative processes. Each of the principles aims to advise organisations in respect of assessing the risk of their associated persons criminally facilitating tax evasion.

1. **Risk assessment**

As a relevant body, you are advised to assess the nature and the extent to which you are exposed to the risk of their associated persons committing the facilitation of tax evasion. HMRC recommends that you 'sit at the desk' of your 'associated persons' and consider whether they have a motive, the opportunity and the means to criminally facilitate tax evasion.

You should ask:

- Is the work that 'associated persons' carry out subject to monitoring or scrutiny?
- How likely is the criminal facilitation of tax evasion by an 'associated person' to be detected?
- Are there any products or services that 'associated persons' use that could be open to abuse?
- How often do those within high risk roles receive fraud training, and how vigorously is this training evaluated?

2. **Proportionality of risk-based prevention procedures**

Your reasonable procedures must take into account the nature, scale and complexity of its preventative activities. Organisations in sectors such as the banking industry or the accountancy sector may find that they are exposed to more significant risks than others.

3. **Top level commitment**

Senior management need to be committed to preventing 'associated persons' from criminally facilitating tax evasion. A 'zero tolerance' attitude may be adopted, and managers should ensure that the consequences of the criminal facilitation of tax evasion are outlined to their associated persons.

Managers are urged to:

- Outline the consequences of failing to comply with the relevant body's facilitation of tax evasion policy
- Refrain from utilising the services of those who do not have the appropriate preventative measures in place
- Communicate the relevant body's main preventative procedures.

4. **Due diligence**

In order to mitigate any potential risks, you must ensure you apply proportionate due diligence procedures in relation to persons who perform or intend to perform services on their behalf.

Ask yourselves:

- How well do you know the persons performing tasks on behalf of your organisation? Do you need to carry out any additional checks on them?

- Does your organisation require annual certificates to show that you are complying with the CFA?
- If you plan to acquire or merge with another business, have you considered the CFA implications?

5. **Communication**

The associated persons of your organisation must receive thorough and adequate training in regard to the criminal facilitation of tax evasion, and prevention policies must be well-communicated, understood and implemented through the workforce.

Your communication should seek to outline:

- The policies and procedures in place to prevent the criminal facilitation of tax evasion
- How to seek advice or report any concerns in regard to the criminal facilitation of tax evasion
- What is meant by tax evasion and associated fraud
- An employee's duty under the CFA.

6. **Monitoring and review**

Detailed reviews must be carried out of your preventative measures, and changes must be made to these where necessary. Typically, the nature of the risks you face will evolve over time: as such, senior management must ensure that the organisation adapts in response.

Ways to review your procedures:

- Through feedback provided by internal staff members
- Through periodic reviews, accompanied by documented findings
- By working alongside other organisations facing similar risks.

Non-compliance: what are the penalties?

HMRC states: 'The legislation aims to tackle crimes committed by those who act for or on behalf of a relevant body.' Under the CFA, relevant bodies who fail to prevent their associated persons from committing the criminal act of facilitation of tax evasion are subject to unlimited fines and ancillary orders, such as serious crime prevention orders or confiscation orders.

How we can help

Ensuring that you have adequate preventative procedures in place to protect against the risk of your associated persons facilitating tax evasion is crucial. We can help you to implement such procedures - please contact us for more information.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com


FACTSHEET
Data Security - Access

Nunn Hayward
Chartered Accountants

Many businesses are now completely reliant on the data stored on their network servers, PCs, laptops, mobile devices and cloud service providers. Some of this data is likely to contain either personal information and/or confidential company information.

Here we look at some of the issues to consider when reviewing the security of your computer systems with respect to access controls. The General Data Protection Regulation (GDPR) sets out the security principle, which states you must take 'appropriate technical and organisational measures' when securely processing personal data. This is also repeated as the 6th Principle of the Data Protection Act (DPA) 2018, which enhances the GDPR and also states a 'requirement that personal data be processed in a secure manner'.

For this reason preventing unauthorised or accidental access to the personal data you process is an important step towards compliance.

Access security

Good access controls to the computers and the network minimises the risk of data theft or misuse.

Access controls can be divided into two main areas:

- physical access - controls over who can enter the premises and who can access personal data
- logical access - controls to ensure employees only have access to the appropriate software, data and devices necessary to perform their particular role.

Physical access

As well as having physical access controls such as locks, alarms, security lighting and CCTV there are other considerations, such as how access to the premises is controlled.

Visitors should not be allowed to roam unless under strict supervision.

Ensure that computer screens are not visible from the outside.

Use network policies to ensure that workstations and/or mobile devices are locked when they are unattended or not being used.

Ensure that if a mobile device is lost it can be immobilised remotely.

Mobile devices being small are high-risk items so sensitive data should always be encrypted and access to the service should be controlled via a pin number or password.

It may be necessary to disable or restrict access to USB devices and optical readers and writers.

It may be necessary to block network ports via Radius servers, or other network hardware, to prevent unauthorised equipment being plugged into the network via a cable.

Finally, information on hard-copy should be disposed of securely.

Logical access

Logical access techniques should be employed to ensure that personnel do not have more access than is necessary for them to perform their role.

Sensitive data should be encrypted and access to this data controlled via network security, access control lists and user profiles.

Access to certain applications and certain folders may also need to be restricted on a user-by-user basis.

Finally, it may be necessary to lock down certain devices on certain machines, either via group policy in Windows, or a third-party management application.

Passwords

A password policy consisting of a username and password is good practice.

These help identify a user on the network and enable the appropriate permissions to be assigned.

For passwords to be effective, however, they should:

- be relatively long (i.e. eight characters or more)
- contain a mixture of alpha, numeric and special characters (such as &^")
- be changed regularly through automatic password renewal options

- be removed or changed when an employee leaves
- be used on individual files such as spreadsheets or word processed documents which contain personal information
- be encrypted within your systems using a strong encryption algorithm

and should NOT

- be a blanket password (i.e. the same for all applications or for all users)
- be written on 'post it' notes that are stuck on the keyboard or screen
- consist of common words or phrases, or the company name
- be sent via email, unless it is just a temporary password (with no supporting information such as, what it is for and what the username is)
- not be stored as plain text within your systems.

Auditing access

Whilst not a legal requirement of the GDPR, the logging and monitoring of data (and the changes made upon it) will go a long way to supporting compliance with Article 32 of the GDPR.

Auditing your data processing will allow you to review, report and prove:

- who has accessed the data and when
- how often the data is accessed and whether this amount of access is appropriate
- in the event of accidental data loss, review what changes have been made and by whom.

Whilst both the GDPR and DPA 2018 do not state the exact measures you need to undertake, you should consider using a technical solution that is appropriate to your needs and that of the data you are processing.

How we can help

We can provide help in the following areas:

Please contact us if you would like any help in any of these areas.

- defining and documenting security and logical access procedures
- performing a security/information audit
- training staff in security principles and procedures.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Data Security - Backup

Many companies are now completely reliant on the data stored on their network servers, PCs, laptops, mobile devices and in the cloud. Some of this data is likely to contain either personal information and/or confidential company information.

Here we look at some of the issues to consider when reviewing the security of your computer systems and data.

Data backup is an essential disaster recovery procedure and should be undertaken on a regular basis. A business should view regular backups as a form of insurance policy against disaster, theft or cyber attacks.

There are a number of points to consider.

Systems and applications software installation media

Ideally, once the software has been installed, the original media should be stored securely off-site, unless the software was downloaded. Similarly, any activation keys/codes should be stored securely.

Data file locations

In a network environment some data files might be stored on the server and other data files stored on local drives. In which case, separate backups may be required for both the server and one or more PCs.

Ideally, a network solution should be provided, which ensures that all data is re-copied back to the server from local drives.

One strategy would be to use a synchronisation service such as Microsoft OneDrive, or even Sharepoint, instead of more traditional network disk storage.

Backup strategy and frequency

There is likely to be a need for two parallel backup procedures. One to cover a complete systems backup of servers, usually as an image, and another to incrementally (or differentially) backup any data files that have been updated since the previous backup.

The most common backup cycle is the grandfather, father, son method. This consists of a cycle of four daily backups, four or five weekly backups and 12 monthly backups.

Remember that some data has to be preserved for many years - for example accounting records need to be kept for a minimum of six years.

Certain backup media, such as tape or CD/DVD can be reused many times, but they do not have an infinite life and will need replacing after two to ten years depending on the quality and number of times used. Some additional points are made on this issue in the section on backup media degradation.

Solutions such as disk-to-disk, or disk-to-disk-to-tape, and cloud-based backup services do away with the need to worry about degradation.

Backup responsibilities

A specific staff member should be given responsibility for the backup procedures. This person must be able to:

- regularly ensure that all data files (server and local) are incorporated in the backup cycle(s)
- adapt the backup criteria as new applications and data files are added
- modify the backup schedule as required
- interpret backup logs and react to any errors notified
- restore data if files are accidentally deleted, or become corrupt
- regularly test that data can be restored from backup media
- maintain a regular log of backups and the locations where backup media are stored.

Applications backup routines

Many accounting and payroll applications have their own backup routines. It is good practice to use these on a regular basis (as well as conventional server backups) and always just before critical update routines. These backup data files should be stored on the server drive so that they are backed up along with the server.

Local PCs

Certain users will have the data files of applications exclusively on their local drives, for example payroll data. These will require their own regular backup regime, which (as mentioned in the previous paragraph) may consist of a combination of backing up to media

Nunn Hayward
Chartered Accountants

and backing up to the server. Consideration should also be given to whether this data should remain on the local PCs, or whether it should be moved elsewhere.

Backup media

The selection of the right media to use for backups will depend on criteria including, the available budget, the volume of data requiring backup and the networking operating software. External hard disks, or a NAS box with cloud backup, may provide good solutions. If an external service provider, or cloud option is being used, they should have their own backup regime. However, do not rely solely on this and ensure any third-party supplier meets or exceeds your backup needs.

Other media types such as tape or optical storage (CD/DVD/Blu-Ray) may also be considered as a cheaper alternative, but capacity and lifespan may be limited.

External hard disk drives are another option. However, any disk that must go off site for backup reasons should also be encrypted in case of loss or theft.

Backup location

Backups should be stored in a variety of both on-site and off-site locations. On-site backups are easily accessible when data has to be restored quickly, although they are at risk from emergencies, such as fires or floods.

A large number of businesses use on-site safes. However, in a recovery situation these could be inaccessible for a period of time.

Off-site backups have the advantage that they will be recoverable following an emergency, but storage must be both secure and accessible.

Backup retention

Finally, certain types of records, such as accounting records for example, need to be kept for a minimum period of time and this must be considered when developing the data backup strategy (also see below regarding degradation).

Backup media degradation/ decomposition

Backup media degrades and the data stored on them decomposes over a period of time.

Optical media such as CD/DVD and Blu-Ray are particularly sensitive to light (photosensitive), so ensure that they are stored in a dark environment. They are also prone to physical damage when being handled. Finally, CD-Rs and CD-RWs will last anywhere between five and ten years, whereas DVD-RWs and LTO tape media can last up to 30 years.

Backups should be checked on a regular basis for signs of digital decomposition, and tested to check that data can be successfully restored.

In-house or cloud?

Many internet service providers and third-party IT service organisations, now offer off-site data repositories and also complete online application solutions, either as standard or as a chargeable extra. This removes the need to internally support a server and its operating and applications software. However, there are a significant number of key security issues which should be covered as part of the contract/service level agreement (SLA). These should include:

- level of encryption
- the countries in which the data is processed and stored (as this has potential issues with data protection laws)
- data deletion and retention periods
- the availability of audit trails, covering who is accessing the data
- ownership of the data if the provider goes into administration/ receivership.

Where data is stored in the cloud, try to ensure that as little personal data as possible is processed and stored in this way. If this is not possible then at least anonymise the data so that individuals cannot be identified.

Ensure you can manually take your own backup copies of data stored with a third-party, and that this data is in a readable format and can be restored onto other services and applications.

How we can help

We can provide help in the following areas:

Please do contact us if we can be of further help.

- performing a security/information audit
- drawing up a suitable backup regime

- training staff in security principles and procedures.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET

Data Security - Cloud and Outsourcing

Nunn Hayward
Chartered Accountants

Many companies are now completely reliant on the data stored on their network servers, PCs, laptops, mobile devices or in the cloud. Some of this data is likely to contain either personal information and/or confidential company information.

We have a related factsheet that covers the conventional data security considerations.

Here we look at some of the issues to consider when reviewing the security of your computer systems, and how to minimise the risks of data loss, within the cloud and where services are outsourced.

Whilst cloud data storage and outsourcing can often be more secure than using internal resources, there are some additional things to bear in mind when some, or all, of your data is not held on-site.

Audit use and storage of personal data

Consider the potentially sensitive and confidential data that is stored in the cloud by your business.

Find out what is happening to that data and which controls are in place to prevent accidental or deliberate loss of this information.

Risk analysis and risk reduction

The key question is - if all or some of this data is lost who could be harmed and how?

Once that question has been answered, steps to mitigate the risks of data loss must be taken. Here are some steps that should be undertaken to reduce the risk of data loss:-

- ensure that the cloud provider or outsourcer will not share your data with a third party
- check which countries the data will be stored and processed – this could have data protection implications
- ensure that you can take local backup copies of your data
- a data subject has the same rights of access wherever data is being stored, so ensure that a subject access request can be facilitated
- try to minimise the amount of personal data stored in the cloud, or with a third party
- what happens if the provider becomes insolvent? Have a contingency plan in place
- is the data encrypted – if so have you got access to the keys and who else has access to the keys?

There are many resources available including:

ico.org.uk/media/for-organisations/documents/1540/cloud_computing_guidance_for_organisations.pdf

How we can help

Please contact us if you require help in the following areas:

- performing a security/information audit
- reviewing cloud and outsourcing/third-party agreements
- training staff in security principles and procedures.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Data Security - Data Loss Risk Reduction

Many companies are now completely reliant on the data stored on their network servers, PCs, laptops, mobile devices or the cloud. Some of this data is likely to contain either personal information and/or confidential company information.

Here we look at some of the issues to consider when reviewing the security of your computer systems, and how to minimise the risks of data loss. We have a related factsheet that covers some additional considerations for those with data in the cloud or using some form of outsourcing.

There have been many high-profile incidents of data loss where large volumes of personal information have found their way into the public domain. These include health records, financial records and employee details.

A commercial organisation also faces the additional risk of data being lost to a competitor.

Obviously, the larger data losses from government departments and corporations have hit the headlines. However, any company, no matter its size, could suffer a data loss unless sensible precautions are taken.

During 2021 some 39% of UK businesses have experienced some sort of security breach or cyber attack, according to research commissioned by the Department for Culture, Media and Sport (DCMS). The report can be found at: https://www.gov.uk/government/statistics/cyber-security-breaches-survey-2022.

Audit the use and storage of personal data

Consider the potentially sensitive and confidential data that is stored by your business:

- staff records with date of birth, medical information, salary and bank account details etc
- customer and supplier records with bank/credit card account details, pin numbers, passwords, transaction information, contract information, discounts and pricing
- financial and performance data and business plans
- confidential data is not always conveniently stored in a 'secure' database. Often employees need to create and circulate ad hoc reports (using spreadsheets and other documents) that are usually extracts of information stored in a database. This sort of data retrieval is quite often done at the expense of data security - as the database itself invariably will have access controls, but these ad hoc reports usually do not
- find out what is happening to data and which controls are in place to prevent accidental or deliberate loss of this information.

Risk analysis and risk reduction

The key question is - if all or some of this data is lost who could be harmed and how?

Once that question has been answered, steps to mitigate the risks of data loss must be taken. Here are some steps that should be undertaken to reduce the risk of data loss:

- undertake regular backups and store backup data securely off-site
- if high-risk data is stored in the cloud understand what security mechanisms are in place and how you can retrieve all of this data if necessary
- review the type of information that is stored on all devices (including laptops, mobiles, tablets etc) that are used off-site. If such information contains personal and/or confidential data, try to minimise or anonymise the data. Ensure that the most appropriate levels of data security and data encryption are applied to this data
- if mobile devices are permitted to use company facilities ensure there is an active Bring your own Device (BYOD) policy in place. In addition, implement appropriate security controls to restrict the type of data that can be stored on such devices
- ensure that company websites that process online payments have the highest levels of security available such as using the latest versions of SSL for data transmission. If you are not passing the process of payments to a payment gateway service, and will be storing any credit card information, either on disk or in memory on your own servers, you will need to comply with the Payment Card Industry Data Security Standard (PCI DSS)

- review the use/availability of USB, and other writable media such as optical devices within the company and think about restricting access to these devices to authorised users only, via appropriate security settings, data encryption, and physical controls
- ensure that company websites and networks are tested for vulnerabilities from attacks and consider hiring penetration testing firms to conduct these tests on your behalf
- have a procedure for dealing with sensitive information and its secure disposal once the data is no longer required, this should also include the disposal of print outs
- have a procedure by which any personal/corporate data stored on mobile devices can be deleted or access removed
- train staff on their responsibilities, the company's data security procedures, and what they should do if data goes missing
- train staff to identify rogue emails, ransomware, malware, and other potential threats as well as the procedures that should be followed.

Security breach

As well as risk reduction, it is also good practice to have procedures in place in the event a security breach occurs. This should concentrate on four main areas:

1. a recovery plan and procedures to deal with damage limitation
2. recovery review process to assess the potential adverse consequences for individuals, how serious or substantial these are and how likely they are to happen again
3. notification procedures – this includes not only notifying the individuals who have been, or potentially may be affected. If the security breach involves loss of personal data then the Information Commissioner (ICO) should be informed. There may be other regulatory bodies and other third parties such as the police, the banks and the media who need to be informed
4. post-breach - ensure that appropriate measures are put in place to prevent a similar occurrence, update procedures and train or re-train staff accordingly.

Useful resources

National Cyber Security Centre (UK) www.ncsc.gov.uk/guidance

The cyber threat to UK business www.ncsc.gov.uk/cyberthreat

How we can help

Please contact us if you require help in the following areas:

- performing a security/information audit
- training staff in security principles and procedures.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Data Security – Data Protection Regulatory Framework

The General Data Protection Regulation (EU 2016/679) came into force on 25 May 2018 adding new elements and significant enhancements to the existing data protection regime.

The Data Protection Act (DPA) 2018, which came into force on 23 May 2018, implemented the GDPR, whilst also adding provision for UK law to extend the GDPR to areas such as the security services and government bodies, which were not covered under the GDPR alone.

Post-Brexit (following the end of the Brexit transition period from 1 January 2021 onwards), the UK GDPR is the retained version of the EU Regulation by virtue of section 3 of the European Union (Withdrawal) Action 2018 and as amended by the Data Protection, Privacy and Electronic Communications (Amendment Etc) (EU Exit) Regulations 2020.

The UK GDPR protects the rights of UK citizens with regard to their data, the EU GDPR protects the rights of EU citizens. For organisations that handle data on both UK and EU citizens both GDPRs apply.

The principles and requirements of the EU GDPR continue to apply in the UK with its post-Brexit version and here we look at the major areas of scope and some definitions.

Controllers and processors

The GDPR applies to both controllers and processors of data. Controllers say how and why personal data is processed. The processor acts on the controller's behalf to process the data. Your organisation may be a data processor, or a data controller, or both.

There are specific legal obligations on both controllers and processors:

- controllers must specifically ensure that contracts with processors comply with the GDPR; and
- controllers and processors have separate, but explicit, requirements to maintain records of personal data and processing activities
- processors are also legally responsible and liable for any security breaches.

Please see our related factsheet 'Data Security - General Data Protection Regulation - Ensuring Compliance' for more detailed information on the documentation requirements.

Data protection principles

Personal data shall be:

- processed lawfully, fairly and transparently
- collected for specified, explicit and legitimate purposes
- adequate, relevant and limited to what is necessary for the purpose
- accurate and kept up to date. Inaccurate data should be erased or corrected
- kept in an identifiable format for no longer than is necessary
- processed securely and protected from unauthorised or unlawful processing, accidental loss, or destruction or damage.

GDPR rights for individuals

The right to be informed

Individuals have the right to know how their personal data is going to be processed. The GDPR promotes transparency over processing by way of a privacy notice encompassing (amongst other things) details of the controller, the source of the data, recipients of the data, data transfers made outside the EU, and the retention period of the data.

The right of access (subject access request)

Individuals have the right to obtain confirmation that their data is being processed, access to their personal data, and other information, such as that provided in a privacy notice.

The maximum amount of time allowed to deal with a subject access request is 30 days and the right to charge a subject access fee has been removed, unless the request is unfounded, excessive or repetitive.

The right to rectification

Individuals have the right to have inaccurate or incomplete personal data rectified. This must also include personal data which is shared or given to third parties.

The right to erasure

Individuals have the right to request the deletion or removal of personal data where there is no compelling reason for its continued processing. Again, this must also include personal data that is shared or given to third parties.

It is important to note that there are extra requirements when the request relates to a child.

There are some exceptions to the right to erasure, such as where data is held to comply with a legal obligation.

The right to restrict processing

Individuals have the right to restrict the processing of personal data. In these circumstances the personal data can be stored, but not processed.

The right to data portability

Individuals have the right to obtain and reuse their personal data across different services. It allows them to move, copy or transfer personal data. Personal data must be provided in a structured machine-readable format (such as.csv).

The right to object

Individuals have the right to object to the processing of personal data. Processing must stop immediately unless there are 'compelling' legitimate grounds for the processing, or if processing is for the establishment, exercise or defence of legal claims.

Rights in relation to automated decision making and profiling

Individuals have the right to ensure that safeguards are in place to protect against the risk of damaging decisions being taken without human intervention. This also extends to the safeguarding of personal data used for profiling purposes.

Accountability and governance

The principle of accountability requires that appropriate governance measures are in place to document compliance. Organisations therefore need to:

- implement measures that meet the principles of data protection
- document policies and procedures in relation to the storage and processing of personal data
- implement technical and organisational measures to ensure and demonstrate compliance.
- appoint a data protection officer where necessary.

Please see our related factsheet 'Data Security - Ensuring Data Protection Compliance' for more detailed information.

Lawfulness of processing

It is important to understand and document the lawful basis of your processing. There are six:

1. Consent
2. Contractual obligation
3. Legal obligation
4. Vital interests
5. Public interest
6. Legitimate interests.

On the issue of consent, it must be specific, unambiguous and freely given. Positive consent cannot be assumed from inaction, such as failing to click an online 'unsubscribe' box, or from the use of pre-ticked boxes. Businesses need to make sure that they capture the date, time, method and the actual wording used to gain consent, so it is important to ensure that your business has the means to record and document such information.

ICO consent guidance

Legitimate interest will grant you the ability to process the individuals' data but only within the bounds that they would expect. If you are to rely on legitimate interests, you will take on the responsibility for ensuring that:

- there is a basis to use legitimate interest
- the processing of data is limited to that interest and can be demonstrated
- the individual's rights have been considered in a balancing process
- the individual is informed of the legitimate interests in your privacy policies.

ICO legitimate interests guidance

Nunn Hayward
Chartered Accountants

Notification of breaches

A personal data breach is the accidental or unlawful destruction, loss, alteration, unauthorised disclosure or access to personal data.

The UK Regulator the ICO has an online self-assessment tool which helps to determine the severity of the breach and whether or not it need be reported. Some breaches need to be notified to the relevant supervisory authority within 72 hours. It is vital to undertake the assessment as soon as the breach is discovered.

ICO personal data breach assessment guidance

Transfer of data

On 28 June 2021 the EU Commission adopted an adequacy decision for the UK which means that most data can continue to flow between the UK and the EU EEA without the need for additional safeguards. (The exception is data for the purposes of immigration control.)

When transferring data to a 'third country', then additional safeguards such as Standard Contractual Clauses or Binding Corporate rules may be applicable. The first link below is from the UK's regulator – the ICO. The second is from the European Commission.

ICO data transfer agreement guidance

EU rules for transfers outside of the bloc

Sources and links

ICO home page for organisations

EU GDPR portal - http://www.eugdpr.org/

Nunn Hayward
Chartered Accountants

FACTSHEET

Data Security – Data Protection Regulation - Ensuring Compliance

Roles and Responsibilities

In the run up to GDPR you will have considered if you needed to formally appoint a DPO – a necessity if:

- You are a public authority or body; or
- Your core activities require large scale, regular and systematic monitoring of individuals; or
- Your core activities consist of large-scale processing of special categories of data or data relating to criminal convictions and offences.

Many organisations chose to ensure that an individual or department has responsibility for privacy activities without the need for a formal DPO appointment. Ensuring that the roles and responsibilities for data protection are well known and documented in your organisation is a key compliance requirement.

ROPA - Record of Processing Activities

Documentation of the processing activities carried out by the organisation is a requirement of Article 30 of the GDPR (both UK and EU) if your organisation has over 250 employees. It is also a requirement for smaller companies if the data you process:

- are not occasional
- are likely to impact the rights and freedoms of individuals; and
- involve special category data or criminal conviction and offence data.

Your ROPA should contain a data map of your systems that contain personal data along with information on the lawful basis of processing, the purposes and methods of processing data, data sharing and data retention policies and procedures.

It is important to ensure that there are regular reviews of this documentation as updates are likely over time.

There is further guidance from the ICO on ROPA best practice.

Policies and procedures

Your policies and procedures should clearly outline roles and responsibilities in your organisation covering a number of privacy related areas:

- Data Protection and records management
- Information security including breaches and incident management
- The provision of information following individual rights requests – such as subject access requests and information notices
- Data Protection by design and default to ensure issues are considered and documented (Privacy impact assessments) when new systems, services, products and processes are implemented, or existing ones amended
- The privacy policy on your website should be reviewed regularly and the date of last update clearly displayed

Supplier Management

It is essential that contracts are in place with organisations that process data on your behalf. Contracts should set out the details of processing including:

- The subject matter of the processing
- Duration of the processing
- Nature and purpose of the processing
- Type of personal data and categories of data subjects
- If any sub-processors are used.

A framework of due diligence checks to ensure that these organisations are operating the appropriate technical and organisational requirements to meet GDPR is needed.

Regularly reviewing the contracts and data sharing agreements you have in place with other organisations is recommended.

Training

Making sure your staff are aware of their responsibilities with regard to processing personal data is key. Induction and refresher training should include information on data protection, potential security threats and your organisation's information governance policies and structures. Monitoring and documenting training completion is an important element in being able to demonstrate your compliance.

Other laws and regulations

There are various other Acts and regulations in the UK which have a bearing on data security. These include:

- Privacy and Electronic Communications Regulations (PECR) 2003 - which cover 'spam' and mass-marketing mailshots. Regulations under the PECR are also issued from time to time. For example, regulations on the use of cookies on websites, and in 2016 to require anyone making a marketing call to display their number
- Copyright Design and Patents Act - amended in 2002 to cover software theft
- There may be other IT standards and regulations applicable: for example, companies processing credit card transactions need to ensure compliance with the Payment Card Industry Data Security Standards (PCI DSS).

Sources and links:

ICO home page for organisations EU GDPR portal - www.eugdpr.org/

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Directors' Responsibilities

Nunn Hayward
Chartered Accountants

The position of director brings both rewards and responsibilities upon an individual.

Whether you are appointed to the Board of the company you work for or you are involved in establishing a new business and take on the role of director you will feel a sense of achievement.

However the office of director should not be accepted lightly. It carries with it a number of duties and responsibilities. We summarise these complex provisions below.

Companies

You can undertake business in the UK as either:

- an unincorporated entity, ie a sole trader or a partnership or
- an incorporated body.

An incorporated business is normally referred to as a company. Although there are limited liability partnerships and unlimited companies the vast majority of companies are limited by shares. This means the liability of shareholders is limited to the value of their share capital (including any unpaid).

A limited company can be a private or public company. A public company must include 'public' or 'plc' in its name and can offer shares to the public.

The responsibilities and penalties for non compliance of duties are more onerous if you are a director of a public company.

Directors

When you are appointed a director of a company you become an officer with extensive legal responsibilities. For a director of an incorporated body, the Companies Act 2006 sets out a statement of your general duties. This statement codifies the existing 'common law' rules and equitable principles relating to the obligations of company directors that have developed over time. Common law had focused on the interests of shareholders. The Companies Act 2006 highlights the connection between what constitutes the good of your company and a consideration of its wider corporate social responsibilities.

The legislation requires that directors act in the interests of their company and not in the interests of any other parties (including shareholders). Even sole director/shareholder companies must consider the implications by not putting their own interests above those of the company.

The aim of the codification of directors' duties in the Companies Act 2006 is to make the law more consistent and accessible.

The Act outlines seven statutory directors' duties, which also need to be considered for shadow directors. These are detailed below.

Duty to act within their powers

As a company director, you must act only in accordance with the company's constitution, and must only exercise your powers for the purposes for which they were conferred.

Duty to promote the success of the company

You must act in such a way that you feel would be most likely to promote the success of the company (ie its long-term increase in value), for the benefit of its members as a whole. This is often called the 'enlightened shareholder value' duty. However, you must also consider a number of other factors, including:

- the likely long-term consequences of any decision
- the interests of company employees
- fostering the company's business relationships with suppliers, customers and others
- the impact of operations on the community and environment
- maintaining a reputation for high standards of business conduct
- the need to act fairly as between members of the company.

Duty to exercise independent judgment

You have an obligation to exercise independent judgment. This duty is not infringed by acting in accordance with an agreement entered into by the company which restricts the future exercise of discretion by its directors, or by acting in a way which is authorised by the company's constitution.

Duty to exercise reasonable care, skill and diligence

This duty codifies the common law rule of duty of care and skill, and imposes both 'subjective' and 'objective' standards. You must exercise reasonable care, skill and diligence using your own general knowledge, skill and experience (subjective), together with the care, skill and diligence which may reasonably be expected of a person who is carrying out the functions of a director (objective). So a director with significant experience must exercise the appropriate level of diligence in executing their duties, in line with their higher level of expertise.

Duty to avoid conflicts of interest

This dictates that, as a director, you must avoid a situation in which you have, or may have, a direct or indirect interest which conflicts, or could conflict, with the interests of the company.

This duty applies in particular to a transaction entered into between you and a third party, in relation to the exploitation of any property, information or opportunity. It does not apply to a conflict of interest which arises in relation to a transaction or arrangement with the company itself.

This clarifies the previous conflict of interest provisions, and makes it easier for directors to enter into transactions with third parties by allowing directors not subject to any conflict on the board to authorise them, as long as certain requirements are met.

Duty not to accept benefits from third parties

Building on the established principle that you must not make a secret profit as a result of being a director, this duty states that you must not accept any benefit from a third party (whether monetary or otherwise) which has been conferred because of the fact that you are a director, or as a consequence of taking, or not taking, a particular action as a director.

This duty applies unless the acceptance of the benefit cannot reasonably be regarded as likely to give rise to a conflict of interest.

Duty to declare interest in a proposed transaction or arrangement

Any company director who has either a direct or an indirect interest in a proposed transaction or arrangement with the company must declare the 'nature and extent' of that interest to the other directors, before the company enters into the transaction or arrangement. A further declaration is required if this information later proves to be, or becomes either incomplete or inaccurate.

The requirement to make a disclosure also applies where directors 'ought reasonably to be aware of any such conflicting interest.

However, the requirement does not apply where the interest cannot reasonably be regarded as likely to give rise to a conflict of interest, or where other directors are already aware (or 'ought reasonably to be aware') of the interest.

Companies House Reform

As of 8 April 2025, company directors will be required to verify their identity in order to file accounts with the registrar or otherwise interact with Companies House. This can be done directly with the registrar or via an Authorised Corporate Services Provider (ACSP).

Enforcement and penalties

The Companies Act states that they will be enforced in the same way as the Common Law, although under Company Law. As a result there are no penalties in the Companies Act 2006 for failing to undertake the above duties correctly.

Enforcement is via an action against the director for breach of duty. Currently such an action can only be brought by:

- the company itself (ie the Board or the members in a general meeting) deciding to commence proceedings; or
- a liquidator when the company is in liquidation
- an individual shareholder can take action against a director for breach of duty. This is known as a derivative action and can be taken for any act of omission (involving negligence), default or breach of duty or trust.

Where the company is controlled by the directors these actions are unlikely.

How we can help

You will now be aware that the position of director must not be accepted lightly.

We can provide the professional advice you need to ensure you are in the latter category. Please contact us if you would like more information.

- the law is designed to penalise those who act irresponsibly or incompetently.
- a director who acts honestly and conscientiously should have nothing to fear.

01753 888211 | info@nhllp.com | www.nhllp.com

FACTSHEET
Discrimination

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

The Equality Act 2010 replaces all previous equality legislation, including the Employment Equality (Age) Regulations 2006. The Equality Act covers age, disability, gender reassignment, race, religion or belief, sex, sexual orientation, marriage and civil partnership and pregnancy and maternity. These are now called 'protected characteristics'.

The Equality Act 2010 replaces all previous equality legislation, including the Employment Equality (Age) Regulations 2006. The Equality Act covers age, disability, gender reassignment, race, religion or belief, sex, sexual orientation, marriage and civil partnership and pregnancy and maternity. These are now called 'protected characteristics'.

Workplace discrimination occurs when an employee or job applicant is treated unfairly based on characteristics such as race, gender, age, disability, religion, or other protected factors. Discrimination can take many forms, including biased hiring practices, unequal pay, harassment, or wrongful termination.

Recent legislation has strengthened protections against workplace harassment, expanding employer responsibilities to prevent and address discrimination. New laws may include stricter reporting requirements, broader definitions of harassment, and increased penalties for non-compliance. Employers are now expected to implement comprehensive anti-harassment policies, conduct regular training, and create safer reporting mechanisms for employees.

In October 2024, the UK government introduced a comprehensive Employment Rights Bill aimed at enhancing worker protections across various domains. Key provisions of this legislation include:

- **Protection Against Third-Party Harassment**: Employers are now legally obligated to take 'reasonable steps' to safeguard their employees from harassment by third parties, such as customers or clients. This means that businesses must proactively implement measures to prevent such incidents, ensuring a safer work environment for all staff members.
- **Enhanced Maternity and Pregnancy Protections**: The bill strengthens existing laws to provide greater security for pregnant employees and those on maternity leave, aiming to prevent discrimination and unfair treatment during and after pregnancy.
- **Menopause Action Plans**: Employers are required to develop and implement action plans addressing the needs of employees experiencing menopause, promoting a supportive and inclusive workplace culture.
- **Default Flexible Working and Regulation of Zero-Hours Contracts**: The legislation establishes flexible working arrangements as the default and seeks to eliminate most exploitative zero-hours contracts, granting employees more predictable and stable working conditions.

Discrimination

Discrimination occurs when someone is treated less favourably than another person because of their protective characteristic.

There are four definitions of discrimination:

Direct Discrimination: treating someone less favourably than another person because of their protective characteristic

Indirect Discrimination: having a condition, rule, policy or practice in your company that applies to everyone but disadvantages people with a protective characteristic

Associative Discrimination: directly discriminating against someone because they associate with another person who possesses a protected characteristic

Perceptive Discrimination: directly discriminating against someone because others think they possess a particular protected characteristic

Harassment

Harassment on the basis of age is equally unlawful. For example, a mature trainee teacher may be teased and tormented in a school on the grounds of age during the teaching experience. If no action is taken by the head teacher, this may be treated as harassment. An employee may be written off as 'too slow' or 'an old timer'. This too could be seen as harassment.

The Equality Act 2010 covered harassment by a third party, making employers potentially vicariously liable for harassment of their staff by people they don't employ. However, this has been repealed with effect from October 2013, and employers will no longer have the risk of being held responsible if an external third party harasses an employee. However, employers must continue to take 'all reasonable steps' to ensure that employees don't suffer harassment at work; therefore it is recommended that your harassment policy still states that you show 'zero tolerance' towards such behaviour.

Recruitment

Employers must be aware of the significance of the legislation at all stages in the recruitment process and to avoid breaking the age rules they should consider:

- removing age/date of birth from adverts for example: 'Trainee Sales Representatives.. envisaged age 21-30 years'
- reviewing application forms to ensure they do not ask for unnecessary information about periods and dates
- avoiding asking for 'so many years of experience' in job descriptions and person specifications for example: 'graduated in the last seven years'
- avoiding using language that might imply a preference for someone of a certain age, such as 'mature', 'young', 'energetic' or 'the atmosphere in the office, although demanding, is lively, relaxed and young'
- ensuring that other visible methods are used to recruit graduates as well as university milk rounds, to avoid limiting opportunities to young graduates
- focusing on competencies to undertake a role and not making interview notes that refer to age considerations
- never asking personal questions nor make assumptions about health or physical abilities
- never ask health related questions before you have offered the individual a job.

Action for employers

Employers need to undertake the following to ensure that they are not breaking the law:

- review equality policies
- review employee benefits
- review policies and procedures on retirement
- undertake equality training covering recruitment, promotion and training.

How we can help

We will be more than happy to provide you with assistance or any additional information required. Please contact us for more detailed advice.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Dismissal Procedures

Since April 2024, several legislative changes have impacted UK employment law, particularly concerning dismissal procedures.

The Employment Rights Bill 2024 introduced unfair dismissal protection from the first day of employment, eliminating the previous two-year qualifying period.

An employee's employment can be terminated at any time but unless the dismissal is fair the employer may be found guilty of unfair dismissal by an Employment Tribunal.

The Worker Protection (Amendment of Equality Act 2010) Act 2023, effective from 26 October 2024, introduced employer liability for third-party harassment, such as by customers or clients, emphasising the need for preventive measures.

We set out below the main principles involved concerning the dismissal of employees including some common mistakes that employers make. We have written this factsheet in an accessible and understandable way but some of the issues may be very complicated.

Professional advice should be sought before any action is taken.

The right to dismiss employees

Reasons for a fair dismissal would include the following matters:

- the person does not have the capability or qualification for the job (this requires the employer to go through consultation and/or disciplinary processes)
- the employee behaves in an inappropriate manner (the company/firm's policies should refer to what would be unreasonable behaviour and the business must go through disciplinary procedures)
- redundancy, providing there is a genuine business case for making (a) position(s) redundant with no suitable alternative work, there has been adequate consultation and there is no discrimination in who is selected
- the dismissal is the effect of a legal process such as a driver who loses his right to drive (however, the employer is expected to explore other possibilities such as looking for alternative work before dismissing the employee)
- some other substantial reason.

Claims for unfair dismissal

As there is now no required qualifying period, employees can make a claim to an Employment Tribunal for unfair dismissal within six months of the date of the dismissal and if an employee can prove that he/she has been pressured to resign by the employer he/she has the same right to claim unfair dismissal or constructive dismissal.

Details of claims need to be submitted to ACAS for early conciliation where the parties will be offered pre-tribunal conciliation before proceeding to a Tribunal. However, there is no obligation of either party to take it up.

There are two levels of claim, depending on the complexity of the case. There is the straightforward claim where there is one claim per claimant or the more complex multiple claims (including unfair dismissal and discrimination claims)

If the claim proceeds to Tribunal and the employee wins his/her case the Tribunal can choose one of three remedies which are:

- reinstatement which means getting back the old job on the old terms and conditions
- re-engagement which would mean a different job with the same employer
- compensation where the amount can be anything from a relatively small sum to a maximum cap of 12 months' pay, which will apply where the amount is less than the overall cap. Where the dismissal was due to some form of discrimination the award can be unlimited.

If the dismissal is demonstrated as being due to any of the following it will be deemed to be unfair regardless of the length of service:

- discrimination for age, disability, gender reassignment, race, religion or belief, sex, sexual orientation or marriage and civil partnership
- pregnancy, childbirth or maternity leave
- refusing to opt out of the Working Time Regulations
- disclosing certain kinds of wrong doing in the workplace

- health and safety reasons
- assertion of a statutory right.

Statutory disciplinary procedures

The Employment Act 2008 introduced the ACAS Code of Practice which saw a change to the way employers deal with problems at work. It also saw the removal of 'automatic unfair dismissal' related to failure to follow procedures. Tribunals may make an adjustment of up to 25% of any award, where they feel the employer has unreasonably failed to follow the guidance set out in the ACAS Code.

The ACAS Code of Practice sets out the procedures to be followed before an employer dismisses or imposes a significant sanction on an employee such as demotion, loss of seniority or loss of pay.

The ACAS Code does not apply to redundancy or expiry of a fixed term contract.

Standard procedure

Step 1	Employers must set out in writing the reasons why dismissal or disciplinary actions against the employee are being considered. A copy of this must be sent to the employee who must be invited to attend a meeting to discuss the matter, with the right to be accompanied
Step 2	A meeting must take place giving the employee the opportunity to put forward their case. The employer must make a decision and offer the employee the right to appeal against it.
Step 3	If an employee appeals, you must invite them to a meeting to arrive at a final decision

There may be some very limited cases where despite the fact that an employer has dismissed an employee immediately without a meeting, an Employment Tribunal will very exceptionally find the dismissal to be fair. This is not explained in the regulations but may apply in cases of serious misconduct leading to dismissal without notice. What this means in practice awaits the test of case law.

Modified procedure

Step 1	Employers firstly set out in writing the grounds for action that has led to the dismissal, the reasons for thinking at the time that the employee was guilty of the alleged misconduct and the employee's right of appeal against the dismissal
Step 2	If the employee wishes to appeal against the decision, the employer must invite them to attend a meeting, with the right to be accompanied, following which the employer must inform the employee of their final decision. Where practicable, the appeal meeting should be conducted by a more senior or independent person not involved in the earlier decision to dismiss.

The only occasions where employers are not required to follow the ACAS Code of Practice are as follows:

- they reasonably believe that doing so would result in a significant threat to themselves, any other person, or their or any other person's property
- they have been subjected to harassment and reasonably believe that doing so would result in further harassment

- because it is not practicable within a reasonable period
- where dismissal is by reason of redundancy or the ending of a fixed term contract
- they dismiss a group of employees but offer to re-engage them on or before termination of their employment
- the business closes down suddenly because of an unforeseen event
- the employee is no longer able to work because they are in breach of legal requirements eg to hold a valid work permit.

Common mistakes that employers make

For many the regulations have caused some confusion and practical difficulties. Some of the most common mistakes include:

- failure to invite employees to disciplinary hearings in writing or supply adequate evidence before the disciplinary hearing. The standard procedure requires the employer to set out the 'basis of the allegations' prior to the hearing
- excluding dismissals other than disciplinary dismissals (eg ill-health terminations)
- not inviting employees to be accompanied
- not including a right of appeal
- not appreciating the statutory requirement to proceed with each stage of the procedure without undue delay
- failure to appreciate that an employee may have right to appeal even if it is requested verbally rather than in writing and is after a timescale set down by the employer
- not appreciating that paying an employee a lower bonus for performance related reasons could potentially amount to 'action short of dismissal' by the employer
- failure to treat as a grievance any written statement/letter (for example a letter of resignation) which raises issues which could form the basis of a tribunal claim to which statutory procedures apply. This means that the employer must be alert to issues being raised in writing even if there is no mention of the word grievance.

How we can help

We will be more than happy to provide you with assistance or any additional information required so please do contact us.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Employee Expenses

This factsheet considers the operation and reporting of employee expenses and benefits.

The exemption regime

An exemption may apply to the reporting of employee expenses on forms P11D as long as the necessary conditions are met. Under the exemption the business must satisfy itself that the employee would be entitled to full tax relief on the expenses reimbursed.

The exemption

An exemption applies which effectively means that businesses will not have to pay tax and NIC on paid or reimbursed expenses payments or report them on a P11D. The exemption places the onus on employers to determine whether employee expenses are fully deductible for tax purposes.

Types of expenses

The main types of expenses to which the exemption applies are:

- travel and subsistence expenses
- fees and subscriptions
- business entertainment expenses.

All other non-allowable expenses are still reportable on a P11D and/or subject to PAYE (and possibly NIC). Employees are able to claim tax relief in respect of unreimbursed business expenses.

The exemption does not apply to expenses or benefits provided under a relevant salary sacrifice arrangement. This includes any arrangement where an employee gives up the right to receive earnings in return for tax free expenses payments or where the level of their earnings depends on the amount of any expenses payment.

Conditions of the regime

In order for an employee reimbursed expense to be treated as an exempt payment, an employer needs to put himself in the position of the employee. The employer then asks themselves the question - would that expense have qualified for full tax relief to the employee (were it not for the amount being exempt)?

An employer should consider:

- setting out a corporate policy of which type of expenses are reimbursable and the need for those expenses to be reasonable
- requiring the completion of a standard expense claim form
- the need for any expense claim to be supported by a receipt
- making checks on expense claims
- requiring a senior person to authorise the claims.

What about scale rates?

The rules allow amounts based on scale rates to be paid or reimbursed, instead of the employee's actual costs in certain circumstances. Scale rates are generally for travel and subsistence expenses and consist of round sum allowable amounts for specific circumstances.

Two key types of scale rates are available for use by an employer:

- 'benchmark' rates and
- 'bespoke' rates.

Benchmark rates

Benchmark rates are a set of maximum reimbursement rates for meals. These round sum amounts can be used by employers for payment or reimbursement of employees expenses where relevant qualifying conditions are met.

These rates apply only if the employee incurs expenditure in the course of 'qualifying business travel' as follows:

- one meal allowance per day paid in respect of one instance of qualifying travel, the amount of which does not exceed:

a) £5 where the duration of the qualifying travel in that day is 5 hours or more

b) £10 where the duration of the qualifying travel in that day is 10 hours or more, or

c) £25 where the duration of the qualifying travel in that day is 15 hours or more and is on-going at 8pm or

- an additional meal allowance not exceeding £10 per day paid where a meal allowance (a) or (b) is paid and the qualifying travel in respect of which that allowance is paid is on-going at 8pm.

Bespoke rates

These are rates negotiated and specifically agreed with HMRC in writing. If the business wants to pay bespoke rates for meals or other types of expense, it can apply to HMRC.

HMRC has issued a specific form: PAYE: employers expenses and benefits exemption

Checking

There is no need to require receipts when making payments to employees for subsistence using benchmark scale rates. This applies to standard meal allowances paid in respect of qualifying travel and overseas accommodation and subsistence scale rates. Employers still have to ensure that employees are undertaking qualifying travel.

The accommodation and subsistence overseas scale rates are treated in the same way as benchmark rates. Employers only need to ensure that employees are undertaking qualifying travel.

HMRC has issued guidance on what checking systems they expect employers to operate. We can assist you with this matter or in applying for bespoke rates so please contact us for more information.

Business mileage rates

The key travel and subsistence expenses for many employees are their costs in using their own car or van for business travel. Many employers and their employees use the statutory mileage allowances known as 'authorised mileage allowance payments' (AMAPs). These are scale amounts that employers can pay to employees using their own vehicle for business travel. For cars and vans, the scale rate is 45p per mile for up to 10,000 miles in the tax year and 25p per mile above this.

AMAPs are a separate statutory regime and do not come within the new exemption regime.

For employer provided vehicles the fuel advisory rates can be used to reimburse fuel costs incurred in travelling on business. These advisory fuel rates are updated quarterly throughout each tax year.

Qualifying travel expenses

Qualifying travel is a necessary condition for both travelling and subsistence expenses to be treated as an exempt expense (and also in the use of business mileage rates for cars and vans). A business journey is one which either involves travel:

- from one place of work to another or
- from home to a temporary workplace or vice versa.

However, journeys between an employee's home and a place of work which he or she regularly attends are not business journeys. These journeys are 'ordinary commuting' and the place of work is often referred to as a permanent workplace. This means that the travel costs have to be borne by the employee.

The term 'temporary workplace' means that the employee attends the place for a limited duration or temporary purpose. However, some travel between a temporary workplace and home may not qualify for relief if the trip made is 'substantially similar' to the trip made to or from the permanent workplace. 'Substantially similar' is interpreted by HMRC as a trip using the same roads or the same train or bus for most of the journey.

There will be many variations of types of journeys undertaken by employees so ensuring that it is a business journey is critical especially as the term 'travel expenses' includes the actual costs of travel together with any subsistence expenditure and other associated costs that are incurred in making the journey such as toll or congestion charges.

How we can help

We can advise on the creation and implementation of a robust expenses system. We can also help with the completion of annual forms P11D. Please contact us for any further assistance or advice.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Employer Supported Childcare

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

Employer Supported Childcare (ESC), commonly by way of childcare voucher, is for many employers and employees a tax and national insurance efficient perk. We consider the implications of this type of benefit on the employer and employee.

ESC, which allows a limited tax and NIC exemption for employer-contracted childcare and employer-provided childcare vouchers, has been very popular with both employers and employees alike. However ESC closed to new members from 4 October 2018. The government introduced Tax-Free Childcare which is available to employees and the self employed.

Salary sacrifice

Many employers use ESC as part of salary sacrifice arrangements; for example, the employee gives up pay, which is taxable and NIC-able, in return for childcare vouchers, which are not. This may save tax and NIC for the employee and NIC for the employer. Such arrangements have proved to be attractive for many but for those on low rates of pay, such arrangements may not be appropriate.

How much childcare can be provided tax and NIC free?

The limit on the amount of exempt income associated with childcare vouchers and employer-contracted childcare for employees is determined by reviewing the estimated earnings and taxable benefits of the employee. Where the level of estimated earnings and taxable benefits:

- is equal to or below the equivalent of the sum of personal allowances and the basic rate limit for the year, the employee will be entitled to relief on £55 exempt income for each qualifying week
- exceeds the equivalent of the sum of personal allowances and the basic rate limit for the year as above, but falls below the limit at which tax becomes payable at the 45% rate limit for the year, the employee is entitled to relief on £28 exempt income for each qualifying week.
- exceeds the equivalent of the additional tax rate limit for the year, the employee is entitled to relief on £25 exempt income for each qualifying week.

For those who joined the employer's scheme prior to 6 April 2011 the weekly limit is £55 a week regardless of earnings and benefits.

Similar rules apply for NIC purposes.

Further details

The employer has to estimate the employee's tax position each year as the amount of exempt income they can receive may change throughout their period of employment.

If the ESC exceeds the amount of exempt income per week the excess will be a benefit in kind and subject to Class 1A NICs. However, with vouchers, although any excess is also a benefit in kind it is subject to Class 1 NICs via the payroll. As the tax and NIC issues are complex many employers limit their employees' entitlement to a maximum of the exempt limit.

The exempt limit applies to the full face value, rather than the cost, of providing a childcare voucher, which would normally include an administration fee.

An employee is only entitled to one exempt amount even if care is provided for more than one child but it does not matter that another person may also be entitled to an exempt amount in respect of the same child.

Determining basic earnings

To identify the rate of tax an individual employee pays in any one tax year, an employer needs to carry out a 'basic earnings assessment' for any employees. Employers who offer or provide employer childcare are required, at the beginning of the relevant tax year, to estimate the 'employment income amount' that the employee is likely to receive during that year.

This is basically the contractual salary and benefits package (not discretionary bonuses or overtime) less the personal allowance if appropriate.

Employers must keep a record of the basic earnings assessment. These records do not need to be sent to HMRC but must be available for inspection by HMRC if required.

The employer must re-estimate the 'employment income amount' for each tax year.

Closure of ESC to new entrants

HMRC has confirmed that employees must have joined an ESC scheme and had the necessary changes made to their salary on or before 4 October 2018. Applying to the scheme before the deadline is not sufficient as an applicant needs to have had the necessary changes made to their salary by the deadline in order to benefit from the income tax and NICs exemption.

Employers who continue to offer ESC to new entrants after 4 October need to deduct income tax and NICs on any vouchers given and pay employer NICs after this date.

Gaps in payment

An employee can ask to stop receiving childcare vouchers temporarily whilst staying in the employer's scheme; for example, if an employee only works during school term time and doesn't need the vouchers during the school holidays. Basically, as long as the gap in providing the vouchers doesn't exceed 12 months the employee can still be classed as an existing member of the employer's scheme.

This also applies to employees who are on maternity leave, sick leave and those who wish to take a career break, provided that the total length of absence does not exceed 12 months.

Further information

HMRC has provided many questions and answers on their website to help both employees and employers and these can be viewed at https://www.gov.uk/government/publications/employer-supported-childcare

Tax-Free Childcare scheme

The government introduced Tax-Free Childcare (TFC), a tax incentive for childcare.

The relief is 20% of the costs of childcare up to total childcare costs of £10,000 per child per year. The scheme will therefore be worth a maximum of £2,000 per child (£4,000 for a disabled child). All children under 12 (up to 17 for children with disabilities) are eligible.

To qualify for Tax-Free Childcare all parents in the household must generally meet a minimum income level, based on working 16 hours a week at National Minimum Wage or Living Wages rates as appropriate and each earn less than £100,000 a year and not already be receiving support through Tax Credits or Universal Credit.

How does this relate to ESC?

ESC closed to new entrants on 4 October 2018. ESC continues to be available for current members if they wish to remain in it or they can switch to the new scheme but parents cannot be in both the ESC scheme and the TFC scheme at the same time.

Employees need to advise their employer in writing (for example, by email) within 90 days if they start receiving TFC, so their employer can stop giving them vouchers and directly contracted childcare with income tax and NICs reliefs. Employees are not able to return to an employer's ESC scheme once they have left.

How we can help

If you would like to discuss childcare in further detail, please do not hesitate to contact us.

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Employment Benefits

01753 888211 | info@nhllp.com | www.nhllp.com

Today the remuneration of many directors and employees comprises a package of salary and benefits.

Essentially two tests must be applied in determining the tax implications of any benefit.

- Is the benefit taxable?
- If the benefit is taxable, what is its taxable value?

In this factsheet, we give guidance on some of the main benefit in kind rules and outline some common types of benefits.

It is not intended to be an exhaustive guide and any decisions should be supported by professional advice appropriate to your personal circumstances.

Setting the scene

All earnings of an office or employment are taxable. Where they are not in cash it becomes necessary to put a value on them.

As a general rule unless the benefit can be converted into cash there is no taxable benefit. Where it is convertible into cash the taxable amount is the resale value.

To prevent avoidance, additional legislation charges certain other benefits to tax. The detailed rules are complex. We can advise on structuring remuneration packages, including benefits, in a tax efficient way.

Reporting

Employers are required to notify HMRC of benefits provided to directors and most employees by completing forms P11D annually.

Penalties can apply where the forms are submitted late or are incorrect.

The full amount of any benefit must be reported on this form.

National Insurance

In general, employees' national insurance (NI) is not due on benefits except vouchers, stocks and shares, the discharge of an employee's personal liability and benefits provided by way of 'readily convertible' assets.

Most benefits are subject to Class 1A NICs payable by the employer. As this amounts to 15% from April 2025 of the taxable value of the benefit, you always need to consider the tax efficiency of providing benefits.

Please consult us for advice.

Non-taxable benefits

Certain benefits are not taxable. The most important ones are:

- retirement benefits which are paid by an employer into a registered pension scheme
- meals provided in a staff canteen
- drinks and light refreshments at work
- parking provided at or near an employee's place of work
- workplace nursery places provided for the children of employees
- in-house sports facilities
- payments for additional household costs incurred by an employee who works at home
- removal and relocation expenses up to a maximum of £8,000 per move
- the provision of a mobile phone or vouchers to make available a mobile phone (limited to one phone per employee only)
- annual social functions for employees provided the total cost of all events in a tax year is less than £150 per head
- trivial benefits up to £50 or £300 per annum in close company situations.

Trivial benefits

A statutory exemption applies for trivial benefits in kind. The exemption sets out a number of conditions that must be met for a benefit to be exempt which are that the:

- cost of providing the benefit does not exceed £50
- benefit is not cash or a cash voucher
- benefit is not provided under salary sacrifice arrangements or any other contractual obligation

- benefit is not provided in recognition of particular services performed by the employee in the course of the employment or in anticipation of such services.

In addition, where qualifying trivial benefits are provided to directors and other office holders of close companies they will be subject to an annual cap of £300. In a case where the benefit is provided to a member of the employee's family or household who is not an employee of the employer, this benefit will count towards the £300 exempt amount. Where the director's or other office holder's family or household member is also an employee of the company, they will be subject to a £300 cap in their own right.

Please contact us for advice on how the exemption operates.

Taxable benefits

The following benefits are taxable on all employees:

- any living accommodation provided, unless job related
- vouchers
- credit tokens.

In addition, special rules apply to tax other benefits received by directors and all but the lowest paid employees. Common types of benefits provided are detailed below.

- **Employer provided cars** - this is probably the most common benefit and the taxable amount will generally be based on a range of up to 37% of the manufacturer's list price (including accessories) of the car. The taxable benefit depends upon the carbon dioxide emissions of the car.

  There are reductions for unavailability of the car and where the employee makes a contribution towards the cost of the car.

  Please talk to us for further details on the application of the rules.
- **Private fuel** - a separate charge applies where private fuel is provided for an employer-provided car, unless the employee reimburses the employer for all private mileage (including travel between home and work). The charges are determined by reference to the percentage applying to the company car. A set figure of £28,200 for 2025/26 (£27,800 for 2024/25) is multiplied by this percentage to determine the taxable benefit.
- **Van** - the scale benefit charge for the unrestricted use of an employer provided van is £4,020 for 2025/26 (£3,960 for 2024/25). Where the restricted private use condition is met no benefit arises. Where an employer also provides fuel for unrestricted private use an additional fuel charge of £769 applies (£757 for 2024/25). Please do get in touch if you would like to ensure that employee van use meets the restricted private use condition.
- **Cheap or interest free loans** - no benefit will be taxed where the loan does not exceed £10,000.
- **Medical insurance** - the cost of providing medical insurance is a taxable benefit.
- **Use of company assets** - an annual benefit is taxed where employees have the private use of company assets. The annual benefit amounts to 20% of the asset's market value when first made available to any employee. Insignificant private use of certain assets is not taxable.
- **Phones** - private home phone bills, including rental charges, which are paid for by the employer will be taxed as a benefit.

Salary sacrifice

The government has introduced rules which limit the income tax and employer NICs advantages where:

- benefits in kind are offered through salary sacrifice; or
- where the employee can choose between cash allowances and benefits in kind.

The taxable value of benefits in kind where cash has been forgone will be fixed at the higher of the taxable value or the value of the cash forgone.

These rules will not affect employer-provided pension saving, employer-provided pensions advice, childcare vouchers, workplace nurseries, Cycle to Work schemes or Ultra-Low Emission Vehicles.

How we can help

The taxation of employment benefits is a complex area. Ensuring that you comply with all the administrative obligations and plan in advance to minimise tax liabilities is essential. We can help you with the following:

We would welcome the opportunity to assist you with any planning and compliance matters so please do contact us.

- reviewing existing employees' remuneration packages for tax and NIC efficiency
- planning flexible and tax efficient remuneration packages for key employees within your organisation
- advising on systems for reimbursing expenses and checking procedures
- help on applying for bespoke scale rates
- providing advice and assistance with the completion of your PAYE returns
- negotiating with HMRC if disagreements arise and in reaching settlements.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Enterprise Investment Scheme

The purpose of the Enterprise Investment Scheme (EIS) is to help certain types of small higher-risk unquoted trading companies to raise capital. It does so by providing income tax and CGT reliefs for investors in qualifying shares in these companies.

There are really two separate schemes within the EIS:

- a scheme giving income tax relief on the investment and a CGT exemption on gains made when the shares are disposed of; and/or
- a scheme aimed at providing a CGT deferral.

An individual may be able to take advantage of either or both of these schemes as long as they meet the relevant conditions which are considered below.

EIS reliefs available

Income tax relief

- Investors may be given income tax relief at 30% on their investments of up to £1,000,000 a year (£2 million a year for knowledge-intensive companies from 6 April 2018).
- The income tax relief is withdrawn if the shares are disposed of within three years.

Eligibility for income tax relief is restricted to companies with which you are not 'connected'. This is considered in 'How to qualify for income tax relief' below.

CGT exemption

- Gains on the disposal of EIS shares are exempt unless the income tax relief is withdrawn.
- The CGT exemption may be restricted if an investor does not get full income tax relief on the subscription for EIS shares.
- Losses on the disposal of EIS shares are allowable. The amount of the capital loss is restricted by the amount of the EIS income tax relief still attributable to the shares disposed of.
- A capital loss arising on the disposal of EIS shares can be set against income.

CGT deferral

- Gains arising on disposals of **any** assets can be deferred against subscriptions for shares in any EIS company.
- Shares do not have to have income tax relief attributable to them in order to qualify for deferral relief.
- The gain will become chargeable in the tax year when the subscription shares are disposed of.
- There is no upper limit on the amount of deferral relief available to an individual although there is a limit on investment in a single company or group of companies.

Qualifying companies

Companies must meet certain conditions for any of the reliefs to be available for the investor.

- The company must be unquoted when the shares are issued and there must be no arrangement in existence at that time for it to cease to be unquoted.
- All the shares comprised in the issue must be issued to raise money for the purpose of a qualifying business activity.
- The money raised by the share issue must be wholly employed within a specified period by the company.
- The investment must generally be made within seven years of the company's first commercial sale.
- The company or group must generally have fewer than 250 full time employees.
- The size of the company is limited to £15 million (gross assets).
- The amount of capital raised in any 12 month period is limited to £5 million (£10 million for knowledge-intensive companies from 6 April 2018).
- The company must not be regarded as an 'enterprise in difficulty' under EC guidance.
- The company need only have a permanent establishment in the UK rather than carrying on a qualifying trade wholly or mainly in the UK.

Qualifying business activities

A trade will not qualify if excluded activities amount to a substantial part of the trade. The main excluded activities are:

- dealing in land, in commodities or futures or in shares, securities or other financial instruments
- financial activities
- dealing in goods other than in an ordinary trade of retail or wholesale distribution
- leasing or letting assets on hire
- receiving royalties or licence fees, other than, in certain cases, such payments arising from film production, or from research and development
- providing legal or accountancy services
- property development
- farming or market gardening
- holding, managing, or occupying woodlands
- operating or managing hotels, guest houses or hostels
- operating or managing nursing homes or residential care homes
- ship building
- coal and steel production.

Time period in which the money is invested

The time limit for the employment of money invested is to two years from the issue of the shares or, if later, two years from the commencement of the qualifying activity.

Changes to the rules for qualifying companies

Over the years, governments make amendments to what are regarded as qualifying companies for EIS. The thrust of the changes is to ensure well-targeted support for investment into small and growing companies, with a particular focus on innovative companies. For example the conditions for knowledge-intensive companies vary from some of those mentioned above.

How to qualify for income tax relief

Eligibility for income tax relief is restricted to companies with which you are not 'connected' at any time during a period beginning two years before the issue of the shares and ending three years after that date, or three years from the commencement of the trade if later.

You can be connected with a company in two broad ways:

- by virtue of the size of your stake in the company; or
- by virtue of a working relationship between you and the company.

In both cases the position of your 'associates' is also taken into account.

Size of stake

You will be connected with the company at any time when you control directly or indirectly possess, or are entitled to acquire, more than 30% of the ordinary share capital of the company.

Working relationship

You will be connected with the company if you have been an employee or a paid director of the company.

There is an exception to this rule if you become a paid director of the company after you were issued with the shares.

You must never previously have been connected with the company and must not become connected with it in any other way. Also, you must never have been involved in carrying on the whole or any part of the trade or business carried on by the company.

How to qualify for CGT deferral relief

You can defer a chargeable gain which accrues to you on the disposal by you of any asset. In addition, you can defer revived gains arising to you in respect of earlier EIS, Venture Capital Trust (VCT) or CGT reinvestment relief investments.

There are some restrictions on investments against which gains can be deferred. These are designed, broadly, to prevent relief being obtained in circumstances where there is a disposal and acquisition of shares in the same company.

Receiving value from a company

The EIS is subject to a number of rules which are designed to ensure that investors are not able to obtain the full benefit of EIS reliefs if they receive value from the company during a specified period. If relief has already been given, it may be withdrawn.

Examples of the circumstances in which you would be treated as receiving value from the company are where the company:

- buys any of its shares or securities which belong to you
- makes a payment to you for giving up the right to payment of a debt (other than an ordinary trade debt)

- repays a debt owed to you that was incurred before you subscribed for the shares
- provides you with certain benefits or facilities
- waives any liability of yours or an associate's to the company
- undertakes to discharge, any such liability to a third party
- lends you money which has not been repaid before the shares are issued.

Receipts of 'insignificant' value will not cause the withdrawal of relief.

How we can help

It is not possible to cover all the detailed rules of the schemes in a factsheet of this kind. If you are interested in using the EIS please contact us.

We can also help to guide you through the implementation of a scheme which is suitable for your circumstances.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Fixed Rate Expenses

We consider an optional system of fixed rate expenses which is available for some businesses.

The rules allow the use of a 'simplified' fixed rate deduction instead of actual costs paid or incurred. It is optional, but using fixed rates may reduce the need for some of the detailed record keeping and calculations necessary to support tax deductible expenses. The amount of the overall tax allowable deductions could be greater or smaller compared to an actual cost comparison depending on the business circumstances.

Am I eligible?

The use of fixed rates is available to anyone who is self-employed. Partnerships can also use them as long as all the members of the partnership are individuals.

What do the fixed rates apply to?

Principally they apply to the following:

- business mileage
- deductions for business use of home
- adjustments for private use of business premises

We consider the rules for calculating the fixed rates and when these are available.

Business mileage

Rather than claiming the actual deductions for purchasing, maintaining and running a motor vehicle or motorcycle, businesses can calculate allowable expenditure using a fixed rate based on mileage. The rates are:

Cars and vans	
Up to 10,000 miles	45p per mile
Over 10,000 miles	25p per mile
Motorcycles	24p per mile

It is important to note that once the fixed rate is used for a particular vehicle, the same method must continue to be used for as long as the vehicle remains in the business. It will therefore be important to keep a detailed mileage log/diary. Additional business costs that are journey specific, such as parking fees and congestion charges will still need to be recorded and claimed. If capital allowances have been claimed the fixed rate cannot be used. Additionally, where for example a van has been claimed as an allowable payment under the cash basis, then the fixed rate cannot be used.

Business use of home

It is very common for self-employed individuals to work at least some of the time from home. Some tax relief is available if part of a home is used solely for the purpose of the business for a specified time. It is important however to ensure that part of the home is not exclusively used for business purposes unless absolutely necessary as this restricts the capital gains tax main residence exemption on the eventual sale of the home. Instead of recording actual costs on running a home (e.g. utilities, telephone and internet charges) and claiming a business proportion, a fixed rate deduction can be claimed. If you decide to adopt the fixed rate then the following rates apply:

Number of hours worked per month	Allowable amount
25 or more	£10
51 or more	£18
101 or more	£26

Hours worked is the number of hours spent wholly and exclusively on work done by yourself or an employee in your home wholly and exclusively for the purposes of the business. You can revert to actual costs in another year after choosing to use the fixed rate for one year.

Nunn Hayward
Chartered Accountants

Private use of business premises

If you use premises both as a home and as business premises (for example, a pub), the total expenses of the property need to be adjusted for private use. A fixed scale can be used to adjust for the private use which will increase taxable profits. Only premises which are used mainly for the purposes of carrying on a trade will qualify.

The fixed scale is as below and is for each month (or part month) falling within the period:

Number of relevant occupants	Flat rate per month
1	£350
2	£500
3 or more	£650

The 'number of relevant occupants' is based on how many people (including children) use the business premises each month (or part of a month) as a private home.

HMRC have advised that the flat rate includes all household goods and services, food and non-alcoholic drinks and utilities but not mortgage interest, rent, council tax or rates. This appears to make the rates above expensive add backs, as a further adjustment is therefore required for these other expenses.

How can we help

We would be happy to review whether claiming fixed rate expenses would be beneficial in your business circumstances so please do contact us.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Franchising

01753 888211 | info@nhllp.com | www.nhllp.com

Franchising is a flourishing industry boasting nearly 1,000 brands in a multitude of different sectors. The business community now takes franchising very seriously and the industry consistently shows 90% of franchisees reporting profitability. The advantages of owning your own business are obvious but so too are the risks. The franchisee is taking less of a risk than starting his or her own business and less than 4% of franchises fail for commercial reasons. This is because they are operating under an established and proven business model and supplying or producing a tested brand name.

Franchising is essentially the permission given by one person, the franchisor, to another person, the franchisee, to use the franchisor's name, trademarks and business system in return for an initial payment and further regular payments.

Each business outlet is owned and managed by the franchisee. However, the franchisor retains control over the way in which products and services are marketed and sold, and controls the quality and standards of the business.

The advantages and disadvantages

Advantages

These include:

- it is your own business
- someone else has already had the bright idea and tested it too
- there will often be a familiar brand name which should have existing customer loyalty
- there may be a national advertising campaign
- some franchisors offer training in selling and other business skills
- some franchisors may be able to help secure funding for your investment as well as discounted bulk buy supplies.

Disadvantages

The potential disadvantages include the following:

- it is not always easy to evaluate the quality of a franchise especially if it is relatively new
- extensive enquiries may be required to ensure a franchise is strong
- part of your annual profits will have to be paid to the franchisor by way of fee
- the rights of the franchisor, for example to inspect your premises and records and dictate certain methods of operation, may seem restrictive
- should the franchisor fail to maintain the brand name or meet other commitments there may be very little you can do about it.

The costs

The franchisor receives an initial fee from the franchisee together with on-going management service fees. These will be based on a percentage of annual turnover or mark-ups on supplies and can vary enormously from business to business. In return, the franchisor has an obligation to support the franchise network with training, product development, advertising, promotional activities and a specialist range of management services.

Financing costs

Raising money to finance the purchase of a franchise is just like raising money to start any business. All of the major banks have specialist franchise departments. You may need to watch out for hidden costs of financing. These could arise if the franchisor obtains a commission on introducing you to a business providing finance or a leasing company for example. Of course these only represent true costs if you could have obtained the finance cheaper elsewhere.

Choosing a franchise

Factors to consider

There are many factors you may need to take into account when choosing a franchise. Consider the following:

- your own strengths and weaknesses - make sure they are compatible with the franchise

- thoroughly investigate the business you are planning to buy
- research the local competition and make sure there is room for your business
- give legal contracts careful consideration
- last but not least, talk to us about the financial projections for the business - cash flow, working capital needs and profit projections will form the core of your business plan.

Finding a franchise

The British Franchise Association (BFA) is likely to be a sensible starting point.

The official online partner of the BFA is whichfranchise.com which lists the latest BFA approved franchises.

A directory of all franchises available in the UK is available at franchise-uk.co.uk/franchises-directory/

Having narrowed down your choice, you will then need to think about contacting a shortlist of probably five or six franchise companies asking them for further details. This should include projections of the likely level of business as well as a draft contract.

If the franchise is a good one there are likely to be a number of applicants. You will need to sell yourself as the ideal applicant to the franchisor which will include providing references as well as putting forward a strong case as to your suitability as a franchisee.

The contract

The contract will form the basis of all franchise agreements. It should ensure that you run your business along the lines set out by the franchisor. The following areas should be covered:

- the name and nature of the business
- the geographical territory where the franchisee can use the name
- how long the franchise will run
- the fees (both initial and on-going) that will be charged
- what happens if the franchisee wants to sell or either the franchisee or franchisor want to end the agreement
- the terms of the relationship, specifically that the franchisor will provide training, advertising etc and that the franchisee will abide by the rules laid down by the franchisor.

How we can help

The franchising industry claims to be able to help you start a new business with a much greater than average chance of survival. Statistics seem to back this up and suggest that a franchised business has a much better chance of surviving the first three 'danger' years than other new businesses.

However you don't get something for nothing and we can help you to look critically at the costs of entering into a franchise. We can also help with the all important business plan, including cash flow, working capital needs and profit projections. We can also provide independent advice on the forecasts given by the franchisor and help you determine how realistic they are. Contact us to find out more.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET

Fraud and How to Spot It - Ten Step Guide

Major corporate frauds and collapses hit the headlines from time to time and many of these were high profile and the amounts involved quite spectacular.

With the current pressures we are still facing from a slow economy, challenges associated with difficulties in renewing finance, the challenge of achieving targets, even simply paying suppliers' bills and it becomes easy to see that the risk of fraud for all sizes of businesses has increased significantly.

The issues associated with well publicised frauds may seem far removed from your business but the simple truth is that fraud can affect businesses of all sizes. Whether you employ a small team or a significant workforce, this factsheet considers how you can increase your awareness of the factors that indicate fraud. It also sets out the defences that you can implement to minimise the risk within your business.

It couldn't happen here

It is easy to think that fraud is something that 'couldn't or wouldn't happen here'. However, while large businesses have the resources to implement what they hope are effective systems of internal control to prevent fraud, smaller and medium-sized businesses often have to rely on a small team of people who they trust. No doubt you can think of a handful of key employees who you couldn't imagine being without! On so many occasions employers have said " he/she (the fraudster) was my most trusted employee".

A key difficulty faced by smaller businesses is the lack of options to segregate duties. Individuals have to fulfil a number of roles and this can lead to increased opportunity and scope to commit fraud, and for some, the temptation can be too great.

Areas where fraud can occur

While the precise nature of any fraud will be specific to the nature of the business and the opportunities afforded to a potential fraudster, there are a number of common areas where fraud can occur.

Employees abusing their position

Most fraud impacts on the profit and loss account, where either expenses are overstated or income understated. Frauds here could range from a few pounds of fiddled expenses, where no one checks supporting documentation or reviews whether the claim made is reasonable, to more significant frauds. These could involve the setting up of fictitious suppliers and the production of bogus invoices, or an employee who approves purchases working in collusion with a supplier.

Positions could also be abused where a business requests tenders. Here there is a risk of 'kickbacks' where the individuals involved in the tender process accept bribes or sweeteners from potential suppliers. This could result in inefficient contracts being signed perhaps for dubious quality goods.

The individual amounts involved in these types of fraud may not be large, so they go unnoticed for some time. However as time progresses the amounts involved can become significant. Many fraudsters gain in confidence and the figures involved escalate as they become 'greedy'. Of course large scale frauds are more likely to be discovered and greed often plays a part in the identification and capture of fraudsters.

Nevertheless the time taken to detect fraud is vital. It may make all the difference to cashflow as fraud drains a business of resources that it needs to grow.

Suppliers taking advantage

Where a business has few or weak checking procedures and controls, a supplier may recognise this fact and take advantage. For example, fewer items may actually be delivered than those included on the delivery note. Invoices may include higher quantities or prices than those delivered and agreed.

This highlights the importance of checking both delivery notes and invoices and following up any discrepancies promptly.

Other risk areas

Theft of confidential information such as client or customer lists or intellectual property such as an industrial process could cause a business untold problems if these are stolen by disgruntled employees. There have even been examples of these being copied onto a smart phone!

Information could also be vulnerable to attack from outside. Advances in technological developments mean that businesses need to consider IT related risks. Nowadays it is often believed that the computer is always right, so fewer manual checks are completed generally within the organisation as a result.

Certain types of organisation are at greater risk of fraud, for example those that are cash based can be more vulnerable due to the difficulties in implementing effective controls over cash. Similarly businesses that deal in attractive consumer goods are at increased risk.

Examples

J F Bogus & Sons

You might think that this could never happen to you but if your trusted bookkeeper presents you with an invoice and a cheque to sign, just how hard do you look at the invoice? The amount might be relatively small and is of course supported by an invoice. You have to sign the cheque in a hurry as you won't be in tomorrow and it's 5.15pm. Your bookkeeper will fill the payee line in before the cheque is sent out.

Ultimately, your year end figures just don't look quite right and subsequent investigations identify missing invoices and eventually, that the bookkeeper has been making these cheques payable to himself.

Sporting life!

Stock controls were put to the test in the sportswear and equipment business that showed up too many discrepancies between computerised stock and that actually counted at the year end. The differences could not be explained and eventually surveillance was used to monitor the warehouse.

Revealing footage showed the cleaners adding various bats, balls and kit to the bin bags full of rubbish removed each evening!

Businesses that are growing rapidly may also be more susceptible to fraud. When both company resources and directors personally are stretched to capacity, it is even more difficult to maintain an overview. Indicators of fraud may go unnoticed.

Does anyone know where Sid is?

Imagine the surprise a director of a local manufacturing company had when he handed out the payslips to his workforce and two were left over! His financial controller, who had never missed handing these out previously, had been taken ill and could not come into work. Subsequent investigations revealed that for some time, this much trusted staff member had created fictitious employees and had been paying the wages into his own bank account.

Ten step guide to preventing and detecting fraud

Given the wide range of fraud that could be committed, what steps can you take to minimise the risk of fraud being perpetrated within your organisation? Consider our top ten tips for detecting and preventing fraud.

1. Begin by recruiting the right people to work in your organisation. Make sure that you check out references properly and ensure that any temporary staff are also vetted, particularly if they are to work in key areas.
2. Ensure that you have a clear policy that fraud will not be tolerated within the organisation and ensure that this is communicated to all staff.
3. Consider which areas of your organisation could be at risk, then plan and implement appropriate defences. Target the areas where most of your revenue comes from and where most of your costs lie. Develop some simple systems of internal control to defend these areas. Effective controls include:

    - segregating duties
    - supervision and review
    - arithmetical checks
    - accounting comparisons
    - authorisation and approval
    - physical controls and counts

4. Wherever possible don't have only one person who is responsible for controlling an entire area of the business. This in particular includes the accounting function but will also

Nunn Hayward
Chartered Accountants

include other key areas. For example ordering goods, stock control and despatch in a business where stocks include attractive consumer goods.

5. Always retain a degree of control over the key accounting functions of your business. Don't pre-sign blank cheques other than in exceptional circumstances and ensure that the corresponding invoices are presented with the cheques.
6. Be on the lookout for unusual requests from staff involved in the accounting function.
7. Watch out for employees who are overly protective of their role - they may have something to hide. Similarly watch out for disaffected employees, who might be bearing a grudge or those whose circumstances change for the worse or inexplicably for the better!
8. Watch out for notable changes in cashflow when an employee is away from the office, on holiday for example. Similarly be aware of employees who never take their holiday. These could both be indicators of fraud, something we see when we look back retrospectively.
9. Prepare budgets and monthly management accounts and compare these against your actual results so that you are aware of variances. Taking prompt investigative action where variances arise could make all the difference by closing the window of opportunity afforded to fraudsters.
10. Where a fraudster is caught, make sure that appropriate action is taken and learn from the experience.

Winning the battle against fraud

While the most devious of fraudsters might go unnoticed for some time, many fraudsters are ordinary individuals who see an opportunity. The frauds that they commit are quite simple in nature.

The implementation of some simple checks within a business can make it much more difficult for a fraudster to take advantage. The results could be startling - a fraud of £100 each week equates to around £5,000 leaving a business over a year. Operating at a 20% margin would mean generating £25,000 of turnover to compensate for this.

How we can help

If you would like to discuss any of the issues raised in this factsheet, please do contact us.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Grants

Nunn Hayward Chartered Accountants

Ensuring adequate finance is a fact of life if you run a business. Whether you are looking to expand, undertake a specific project or simply fund your day to day purchases, finance is essential.

Obtaining finance is not always easy, especially if yours is a small business and particularly if it is a recent start-up. Borrowing may be difficult due to lack of security.

A grant may be the answer.

What is a grant?

A grant is a sum of money awarded, by the government or other organisation, for a specific project or purpose. Normally it will cover only some of the costs (typically between 15% and 50%); the business will need to fund the balance. Their availability is limited and competition for the funds can be quite intense. One of the main features of a grant is that the money generally becomes repayable if the terms and conditions of the grant are not met.

This sounds quite simple in principle. However, in practice, it can be somewhat daunting because of the huge number of different schemes in operation and the fact that schemes are constantly changing. Government grants are distributed through a variety of ministries, departments and agencies both on a national and local basis. They are usually for proposed projects only, so ensure you have not already started the project otherwise you may not be entitled to the grant.

The following websites may help with initial research into grant availability:

www.gov.uk/business-finance-support-finder

Grants can also be received through Local Enterprise Partnerships (LEPs), local authorities and charitable organisations.

Is my business eligible?

Many of the available schemes are open to all without restriction. Eligibility for others will generally depend upon a number of factors:

- geographical location of the business - for example some schemes are targeted in areas of social deprivation or high unemployment
- size of business - for example some schemes are restricted to small or medium sized businesses - such as those businesses with fewer than 250 employees
- industry or sector in which the business operates - for example some schemes aim to tackle particular problems or issues affecting an industry sector.
- purpose of the grant - grants are often awarded for specific purposes - for example purchasing a new machine or increasing employment. Grant bodies often seek specific targets which are often in line with their own objectives.

Applying for a grant

Before applying

Initial research is essential so that you know what's on offer.

It is also necessary to ensure that you:

- have funds available to 'match' any grant that may be awarded (where this is a condition of the grant)
- need the money for a specific 'project' or purpose
- have a business plan
- do not start work on the project before the award is confirmed.

Making the application

It is a good idea, if possible, to make personal contact with an individual involved in administering your chosen scheme. This will give you a feel for whether it is worthwhile proceeding before you spend too much time on a detailed application. You may also be able to get some help and advice on making the application.

It is also a good idea where you can to apply as soon as possible after launch of the scheme. Many grant schemes run for a limited period of time; there will be more money available at an early stage and the administrators will be keen to receive applications and make awards.

The application itself should focus on the project for which you are claiming a grant. It should include an explanation of the potential benefits of the project as well as a detailed plan with costings. You should ensure that your application matches the objectives of the scheme. You will almost certainly need to submit a business plan as part of the application. It is important to show that the project is dependent on grant funds to proceed and that you have matching funds available.

Hearing back

This can take anything from a few weeks to a year or more. Your application will generally be assessed by looking at a variety of factors including your approach, your expertise, your innovation and your need for the grant.

Why you might be turned down

There are various reasons why your application may be turned down. The common ones include:

- your industry sector or field is not relevant to the body making the award
- your plan of action was not detailed enough or was unfocused and lacking in clarity
- you have not made it clear that the grant is vital to the success of the project
- matched funds are not available.

Finally, if your application is unsuccessful, ask for feedback. This will help you to be more effective when applying for funds in the future.

How we can help

We can help you to find an appropriate source of grant funds and also assist with your business plan and detailed application. Contact us to find out more.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Homeworking Costs for the Self-Employed

Nunn Hayward
Chartered Accountants

Working from home may be an attractive option for some. Here we consider the tax implications of homeworking arrangements for the self-employed.

Your status is important

The tax rules differ considerably depending on whether you are self-employed, as a sole trader or partner, or whether you are an employee, even if that is as an employee of your own company. One way or the other though, if you want to maximise the tax position, it is essential to keep good records. If not, HMRC may seek to rectify the tax position several years down the line. This can lead to unexpected bills including several years' worth of tax, interest and penalties.

This factsheet focuses on the position of the self-employed.

Wholly and exclusively

The self-employed pay tax on the profits that the business makes or their share of those profits. So, the critical issue is to ensure that costs incurred can be set against that profit. For day to day overheads, those costs generally have to be incurred 'wholly and exclusively' for the purposes of the trade to be tax deductible. What does this really mean in practice? Well, HMRC has issued a lot of guidance on the matter which is summarised below.

Use of the home

If the self-employed carry on some of their business from home, then some tax relief may be available. HMRC accepts that even if the business is carried on elsewhere, a deduction for part of the household expenses is still acceptable provided that there are times when part of the home is used solely for business purposes. To quote:

'If there is only minor use, for example writing up the business records at home, you may accept a reasonable estimate without detailed enquiry.'

So that there is no confusion, wholly and exclusively does not mean that business expenditure has to be separately billed or that part of the home must be permanently used for business purposes. However, it does mean that when part of the home is being used for the business then that is the sole use for that part at that time.

HMRC accepts that costs can be apportioned but on what basis? Well, if a small amount is being claimed then HMRC will usually not be too interested. In fact, HMRC seems to accept that an estimate of a few pounds a week is acceptable. However, if more is to be claimed then HMRC suggests that the following factors are considered:

- the proportion in terms of area of the home that is used for business purposes
- how much is consumed where there is a metered or measurable supply such as electricity, gas or water; and
- how long it is used for business purposes.

What sort of costs can I claim for?

Generally, HMRC will accept a reasonable proportion of costs such as council tax, mortgage interest, insurance, water rates, general repairs and rent, as well as cleaning, heat and light and metered water.

Other allowable costs may include the cost of business calls on the home telephone and a proportion of the line rental, in addition to expenditure on internet connections to the extent that the connection is used for business purposes.

So how does this work in practice?

As already mentioned, if there is a small amount of work done at home, a nominal weekly figure is usually fine but for substantial claims a more scientific method may be needed.

Example

Andrew works from home and has no other business premises. He uses a spare room from 9am to 1pm and then from 2pm until 6pm. The rest of the time it is used by the family. The room represents about 10% of the total area of the house.
The costs including cleaning, insurance, council tax and mortgage interest are about £8,000. 10% = £800 and 8/24 of the use by time is for business, so the claim could be £267.
Electricity costs total £1,500, so 10% is £150 of which 8/24 = £50.

Nunn Hayward
Chartered Accountants

In addition, a reasonable proportion of other costs such as telephone and broadband costs would be acceptable.
The key to Andrew's claim will be that he keeps the records to prove the figures and proportions used.

Equipment costs

For self-employed businesses, the depreciation of assets is covered by a set of tax reliefs known as capital allowances. For equipment at home, such as a laptop, desk, chair, etc, capital allowances may be available on the business proportion (based on estimated business usage) of those assets. So, if Andrew uses his laptop solely for business, the whole cost will be within the capital allowances rules.

What about travel costs?

Another consequence of working from home is the potential impact on travel costs. The cost of travelling from home to the place of business or operations is generally disallowed, as it represents the personal choice of where to live. The fact that the individual may sometimes work at home is irrelevant.

Where an individual conducts office work for their trade does not by itself determine their place of business, so although many may be able to claim tax relief for the costs of working from home, far fewer will be able to claim travel costs of going to and from their home office.

Of course, this principle presupposes that there is a business or operational 'base' elsewhere from which the trade is run. Normally, the cost of travel between the business base and other places where work is carried on will be an allowable expense, while the cost of travel between the taxpayer's home and the business base will not be allowable.

However, where there are no separate business premises away from the home, travel costs to visit clients should be fully allowable. The crux of the matter is where the business is really run from.

And finally

Capital gains tax contains a tax exemption for the sale of an individual's private home, known as principal private residence relief (PPR). Where part of the dwelling is used exclusively for business purposes, PPR relief will not apply to the business proportion of the gain. However, HMRC makes clear in their guidance that 'occasional and very minor' business use is ignored.

Be reasonable

As you can see, all things are possible but the key is to be clear about the rules, keep good records and be sensible about how much to claim.

How we can help

If you would like any help about obtaining tax relief on the costs of homeworking or other expenses, please contact us.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Homeworking and Tax Relief for Employees

Working from home may be an attractive option for some employees. Here we consider the tax implications of homeworking arrangements.

Your status is important

The tax rules differ considerably depending on whether you are self-employed, as a sole trader or partner, or whether you are an employee, even if that is as an employee of your own company. One way or the other though, if you want to maximise the tax position, it is essential to keep good records. If not, HMRC may seek to rectify the tax position several years down the line. This can lead to unexpected bills, including several years' worth of tax, interest and penalties.

This factsheet considers the position for employees.

General rules

Generally, any costs paid on behalf of, or reimbursed to, an employee by their employer will be taxable. The employee will then have to claim the personal tax relief themselves and prove that they incurred those costs 'wholly, exclusively and necessarily' in carrying out their job. The word 'necessarily' creates a much tighter test than that for the self-employed.

In addition, the way in which the services are provided can sometimes make a substantial difference to that tax cost. For example, if the employer provides something for the employee, the rules are often much more generous than if the employee bought it themselves and attempted to claim the tax relief. A bit of advice and forward planning can often prove to be fruitful.

An exemption

The rules for employees in relation to 'use of home as office' contains a specific exemption from a tax charge. They allow payments made by employers to employees for additional household expenses to be tax free, where the employee incurs those costs in carrying out the duties of the employment under homeworking arrangements. 'Homeworking arrangements' means arrangements between the employee and the employer under which the employee regularly performs some or all of the duties of the employment at home.

The arrangements do not need to be in writing but it is advisable to do this, as the exemption does not apply where an employee works at home informally.

Where these rules are met, the additional costs of heating and lighting the work area and the metered cost of increased water usage can be met. There might also be increased charges for internet access, home contents insurance or business telephone calls and where working at home leads to a liability for business rates. HMRC accepts that the additional cost incurred can also be included.

However, unlike the self-employed, HMRC does not accept that a proportion of household fixed costs such as mortgage interest, rent, council tax or water rates are allowable.

A simpler flat rate method is available to cover additional costs. The rate is £6 a week from 6 April 2020. No records are required to be kept. However, to justify a higher payment, the message is: prove it!

Tax relief

The above rules only allow tax free payments to be made in specific circumstances. However, if payments are made outside of these rules or, in fact, no payments are made at all, the employee can claim personal tax relief themselves if they can prove that they incurred those costs or received those payments 'wholly, exclusively and necessarily' for the purposes of their job. In reality this is extremely difficult – some would say impossible – as HMRC requires the following tests to be met:

- the employee performs the substantive duties of their job from home (i.e. the central duties of the job)
- those duties cannot be performed without the use of appropriate facilities
- no such facilities are available to the employee on the employer's premises or are too far away
- and at no time either before or after the employment contract is drawn up is the employee able to choose between working at the employer's premises or elsewhere.

So the moral for employees is to go for tax free payments, not tax relief!

Equipment costs

Capital allowances will be available to the business for the costs of providing equipment to employees who work at home. Provided that the private use of those assets by the employee is insignificant, then there will be no taxable benefit on the employee. Again, this could apply to things such as a laptop, desk or chair, provided that the employer has a written policy making it clear that the provision of the equipment is for work-related purposes.

Travel costs

The rules are so 'simple' that HMRC explains them in booklet IR490! However, the main point to note is that although an employee's home may be treated as a workplace for tax purposes, this is not enough, on its own, to allow the employee to get tax relief for the expenses of travelling to another permanent workplace.

Employees are able to claim tax relief on the full travelling cost incurred in the performance of their duties. However, no relief is available for the costs of ordinary commuting or private travel.

The rules are complex but ordinary commuting is defined as travel between the employee's home and a place which is a 'permanent workplace'. A 'permanent workplace' includes places where there is a period of continuous work lasting more than 24 months or the period of attendance is all or most of the period of employment.

HMRC's guidance states that, for most people, the place where they live is a matter of personal choice, so the expense of travelling from home to any permanent workplace is a consequence of that personal choice. As a result such travelling expenses will not qualify unless the location of the employee's home is itself dictated by the requirements of the job.

Even if that condition is met, the cost of travel between the employee's home and another permanent workplace is only deductible during those times when the home is a place of work.

Of course, employees who work at home are entitled to a deduction for the expenses of travelling to a temporary workplace - that is anything which is not a permanent workplace. It is as clear as that!

Example

Jane's duties often involve her working late into the evenings and she has no access to her employer's premises (her permanent workplace) at night, so she takes work home with her. As it is a matter of personal choice where the work is done (there is no objective requirement that it is done at her home), any travel to or from her home cannot be said to be in the performance of her duties and no relief is available for any costs. However, Jane's husband is an area sales manager who lives in Leicester. He manages his company's sales team in the Midlands and the company's nearest office is in Newcastle. He is therefore obliged to carry out all his administrative work at home, where he has set aside a room as an office. He is entitled to relief for the expenses of travelling to the company's office in Newcastle, as well as for journeys within the Midlands as these should all qualify as temporary workplaces.

Be reasonable

As you can see, all things are possible but the key is to be clear about the rules, keep good records and be sensible about how much to claim.

How we can help

If you would like any help about obtaining tax relief on the costs of homeworking, please do contact us.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Off-Payroll Working and Personal Service Companies

The off-payroll working rules are designed to prevent the avoidance of tax and national insurance contributions (NICs) through the use of personal service companies and partnerships.

The rules do not stop individuals selling their services through either their own personal companies or a partnership. However, they do seek to remove any possible tax advantages from doing so where the worker would otherwise be an employee of the client.

The application of the rules differs depending on the client to whom the services are provided; whether the client is a public sector body, a large or medium private sector business or a small private sector business.

Summary of approach

Removal of tax advantages

The tax advantages mainly arise by extracting the net taxable profits of the company by way of dividend. This avoids any national insurance contributions (NICs) which would generally have been due if that profit had been extracted by way of remuneration or bonus. In addition, dividend tax rates are lower than those applicable to salary income.

The intention of the rules is to tax most of the income received from the client as if it were the salary of the person doing the work.

To whom does it apply?

The rules apply if, had the individual sold their services directly rather than through a company (or partnership), they would have been classed (by HMRC) as employed rather than self-employed.

For example, an individual operating through a personal service company but with only one customer for whom they effectively work full-time is likely to be caught by the rules. On the other hand, an individual providing similar services to many customers is far less likely to be affected.

Employment v self-employment

One of the major issues under the rules is to establish whether particular relationships or contracts are caught. This is because the dividing line between employment and self-employment has always been a fine one.

All of the factors will be considered, but overall it is the intention and reality of the relationship that matters.

The table below sets out the factors which are relevant to the decision.

HMRC will consider the following to decide whether a contract is caught under the rules

Mutuality of obligation	the customer will offer work and the worker accept it as an ongoing understanding?
Control	the customer has control over tasks undertaken/hours worked etc?
Equipment	the customer provides all of the necessary equipment?
Substitution	the individual can do the job himself or send a substitute?
Financial risk	the company (or partnership) bears financial risk?
Basis of payment	the company (or partnership) is paid a fixed sum for a particular job?
Benefits	the individual is entitled to sick pay, holiday pay, expenses etc?
Intention	the customer and the worker have agreed there is no intention of an employment relationship?

Personal factors	the individual works for a number of different customers and the company (or partnership) obtains new work in a business-like way?

HMRC has provided a digital tool to help identify the employment status of a worker.

Planning consequences

The main points to consider if you are caught by the legislation are:

- the broad effect of the legislation will be to charge the fee paid by the client income of the company to NICs and income tax, at personal tax rates rather than corporate tax rates
- there may be little difference to your net income whether you operate as a company or as an individual
- to the extent you have a choice in the matter, do you want to continue to operate through a company?
- if the client requires you to continue as a limited company, can you negotiate with the client for increased fees?
- if you continue as a limited company you need to look at the future company income and expenses to ensure that you will not suffer more taxation than you need to.

Exceptions to the rules

If a company has employees who have 5% or less of the shares in their employer company, the rules will generally not be applied to the income that those employees generate for the company.

Note however that in establishing whether the 5% test is met, any shares held by 'associates' must be included.

How the rules operate

There are different rules which apply depending on the client to whom the services are being provided.

Where the client is a small, private sector body then responsibility for determining the status of the worker lies with the personal service company.

Where the client is a public sector organisation or a medium or large-sized private business, broadly that entity will have responsibility for determining the status of the worker and communicating that via the issue of a status determination statement.

Definition of a small company

The legislation uses an existing statutory definition within the Companies Act of a 'small company' to exempt small businesses from the new rules. A small company is one which meets two of these criteria:

- a turnover of £10.2 million or less
- having £5.1 million on the balance sheet or less
- having 50 or fewer employees.

If the business receiving the work of the individual is not a company, it is only the turnover test that will apply.

Application - services provided to small, private sector client

These rules are sometimes referred to as the IR35 rules.

The personal service company operates PAYE & NICs on actual payments of salary to the individual during the year in the normal way.

If, at the end of the tax year - ie 5 April, the individual's salary from the company, including benefits in kind, amounts to less than the company's income from all of the contracts to which the rules apply, then the difference (net of allowable expenses) is deemed to have been paid to the individual as salary on 5 April and PAYE/NICs are due.

Allowable expenses include:

- certain employment expenses (but not travel)
- certain capital allowances
- employer pension contributions
- employers' NICs - both actually paid and due on any deemed salary
- 5% of the gross income to cover all other expenses.

Where salary is deemed in this way:

- appropriate deductions are allowed in arriving at corporation tax profits and

Nunn Hayward
Chartered Accountants

- no further tax/NICs are due if the individual subsequently withdraws the money from the company in a HMRC approved manner (see below).

Application - services provided to public sector or medium/large private sector client

Where the legislation applies, the public sector engager or fee-payer is treated as an employer for the purposes of tax and Class 1 NICs (including employer NICs) and the amount paid to the worker's intermediary will be deemed to be a payment of employment income to that worker.

The 5% allowance used by the worker's intermediary for certain business expenses is not available for contracts with the public sector.

Income received by the personal service company which has been taxed as employment income under these rules is not chargeable to corporation tax, nor is there additional income tax to pay on extraction of the funds.

Points to consider from the working of the rules

- In order to perform the calculations of the deemed payment under the first set of rules, you need to have accurate information for the company's income and expenses for this period. You may need to keep separate records of the company expenses which will qualify as 'employee expenses'. There is a tight deadline for the calculation of the deemed payment and paying HMRC. The deemed payment is treated as if an actual payment had been made by the company on 5 April and tax and NICs have to be paid to HMRC by 19 April.

- Payments made by your personal company into a personal pension plan will reduce the deemed payment. This can be attractive as the employer's NICs will be saved in addition to PAYE and employee's NICs.
- The timing and method of future extraction of funds from the personal service company should be considered in order to minimise cashflow impacts of taxation.
-

Other points to consider

Partnerships

Where individuals sell their services through a partnership, the rules are applied to any income arising which would have been taxed as employment income if the partnership had not existed.

Many partnerships are not caught by the rules even if one or more of the partners performs work for a client which may have the qualities of an employment contract.

The rules will only apply to partnerships where:

- an individual, (either alone or with one or more relatives), is entitled to 60% or more of the profits or
- all or most of the partnership's income comes from 'employment contracts' with a single customer or
- any of the partners' profit share is based on the amount of income from 'employment contracts'.

Penalties

Where a personal service company or partnership fails to deduct and account for PAYE/NICs due under the rules, the normal penalty provisions apply.

If the company or partnership fails to pay, it will be possible for the tax and NICs due to be collected from the individual as happens in certain circumstances under existing PAYE and NIC legislation.

Managed Service Companies (MSCs)

MSCs had attempted to avoid the IR35 rules. The types of MSCs vary but are often referred to as 'composite companies' or 'managed PSCs'. Broadly, the main difference is that an MSC provider is involved with the worker's company. For example where the provider benefits financially from providing the services of the worker or influences/controls the provision of those services or the way payments are made to the individual. Legislation has been introduced to ensure that workers providing services through an MSC are subject to similar rules to those for PSCs above.

How we can help

We can advise as to the best course of action in your own particular circumstances. If IR35 does apply to you we can help with the necessary record keeping and calculations so please do contact us.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Incorporation

The issue of whether to run your business as a company or a sole trader or partnership is an important one. In this factsheet, we summarise the potential tax consequences arising from operating as a company.

Tax savings

The examples below give an indication of the 2025/26 tax cost of incorporation for a sole trader that:

- has no other sources of income
- takes a salary of £5,000 from the company (set at the level of the secondary employer threshold for National Insurance contributions (NICs)) with the balance after corporation tax paid out as a dividend.

	Scenario 1: Profits £50,000	Scenario 2: Profits £100,000
Tax and NI payable:		
As sole trader	£9,732	£30,689
As company	£11,033	£34,233
Potential saving/(cost)	(£1,301)	(£3,544)

Clearly, the extent of the saving/cost is dependent on the precise circumstances of the individual's tax position and may be more or less than the above figures. Points to bear in mind will be the different treatments of dividends and salaries, the corporation tax rate applicable and whether the individual wishes to extract all profits from the company.

For example, if the salary was increased in Scenario 2 to £12,570 (employer NICs payable but nil employee NICs) and the dividend was reduced to £37,700 such that the individual would only be paying income tax at the basic rate), the tax saving of incorporation is £7,180.

Summary of relevant tax and NIC rates 2025/26

Rate of corporation tax

The main rate of corporation tax is 25% for companies with profits over £250,000. A small profits rate of 19% applies for companies with profits of £50,000 or less. Companies with profits between these limits will pay tax at the main rate reduced by marginal relief, which provides a gradual increase in the effective corporation tax rate.

Taxation of dividends

The cash dividend received is the gross amount potentially subject to tax. The rates of tax on dividend income are 8.75% for basic rate taxpayers, 33.75% for higher rate taxpayers and 39.35% for additional rate taxpayers.

A Dividend Allowance taxes the first £500 of dividends received in a tax year at 0%.

National Insurance

NICs for company directors are calculated on an annualised basis and the rate of employees' NICs is 8% above £12,570 (for 2025/26). In addition, a 2% charge applies to all earnings over the NIC upper earnings limit (£50,270 for 2025/26). The rate of NICs for the self-employed is 6% on profits above £12,570, and 2% on profits above £50,270.

Employer NICs are calculated at 15% of earnings above £5,000 for 2025/26.

NICs can be reduced to nil by incorporating, taking a small salary up to the threshold at which NICs are payable and then taking additional profits as dividends.

Pension provision

As an employee/director of the company, it should be possible for the company to make pension contributions (subject to limits) to a registered pension fund irrespective of the salary level, provided it is justifiable under the 'wholly and exclusively' rule. Pension contributions are deemed to be a private expense for sole traders or partners.

Other tax issues

Capital gains

Incorporating your existing business will involve transferring at least some of your assets (most significantly goodwill) from your sole trade or partnership into your new company. The transfer of goodwill may create a significant capital gain although there is a mechanism for deferring the gain until any later sale of the company if the business is transferred in exchange for shares in the company.

Relief for goodwill

Generally where goodwill is sold to the company for cash or debt on or after 3 December 2014, individuals are prevented from claiming Business Asset Disposal Relief (BADR) and capital gains tax (CGT) arises on the gain.

Property taxes

Depending on where any property is situated there will be Stamp Duty Land Tax (SDLT), Land and Buildings Transaction Tax (LBTT) or Land Transaction Tax (LTT) charges to consider when assets are transferred to a company. Goodwill and debtors do not give rise to a charge, but land and buildings may do so.

Income tax

The precise effects of ceasing business in an unincorporated form including transitional adjustments arising from changes to basis periods, need to be considered.

Capital allowances

Once again the position needs to be carefully considered.

Other advantages

There may be other non-tax advantages of incorporation and these are summarised below.

Limited liability

A company normally provides limited liability. If a shareholder's shares are fully paid he cannot normally be required to invest any more in the company. However, banks often require personal guarantees from the directors for borrowings. The advantage of limited liability will generally apply in respect of liabilities to other creditors.

Legal continuity

A company will enjoy legal continuity as it is a legal entity in its own right, separate from its owners (the shareholders). It can own property, sue and be sued.

Transfer of ownership

Effective ownership of the business may be more readily transferred, in comparison to a business which is not trading as a limited company.

Borrowing

Normally a bank is able to take extra security by means of a 'floating charge' over the assets of the company and this will increase the extent to which monies may be borrowed against the assets of the business.

Credibility

The existence of corporate status is sometimes deemed to add to the credibility or commercial respectability of the business.

Pension schemes

The company could establish an approved pension scheme which may provide greater benefits than self-employed schemes.

Staff incentives

Employees may, with adequate safeguards, be offered an opportunity to acquire an interest in the business, reflecting their position in the company.

Disadvantages

No analysis of the position would be complete without highlighting potential disadvantages.

Administration

The annual compliance requirements for a company in terms of administration and accounting tend to result in costs being higher for a company than for a sole trader or partnership. Annual accounts need to be prepared in a format dictated by the Companies Act and, in certain circumstances, the accounts need to be audited by a registered auditor.

Details of the directors and shareholders are filed on the public register held by the Registrar of Companies.

Privacy

The annual accounts have to be made available on public record - although these can be modified to minimise the information disclosed.

PAYE/benefits

If you do not have any employees at present, you do not have to be concerned with Pay As You Earn (PAYE) and returns of benefits forms (P11Ds). As a company, you will need to complete PAYE records for salary payments and submit details of salary payments on a timely basis under PAYE Real Time Information (RTI). You will also need to keep records of expenses reimbursed to you by the company. Forms P11D may have to be completed.

Dividends

If you will require regular payments from your company, you will need to set up a system to correctly pay dividends.

Transactions with the business owner

A business owner may introduce funds to and withdraw funds from an unincorporated business without tax implications. When a company is involved there may be tax implications on these transactions.

Director's responsibilities

A company director may be at risk of criminal or civil penalty proceedings e.g. for the late filing of accounts or for breaking the insolvency rules.

How we can help

There may be a number of good reasons for considering use of a company as part of a tax planning strategy. However as you can see there are many factors to consider. We would welcome the opportunity to talk to you about your own specific circumstances. Please do not hesitate to contact us.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Individual Savings Accounts

Successive governments, concerned at the relatively low level of savings in the UK economy, have over the years introduced various means by which individuals can save through a tax-free environment.

What is an Individual Savings Account (ISA)?

ISAs are tax-exempt savings accounts available to individuals aged 18 or over who are resident and ordinarily resident in the UK. ISAs are only available to individual investors and cannot be held jointly.

Investment limits

The overall annual savings limit remains at £20,000 for 2024/25 and 2025/26.

Investment choices

Investors are allowed to invest in a cash ISA, an investment ISA, an Innovative Finance ISA, or a combination of the three, subject to not exceeding the overall annual investment limit.

Investors are able to transfer their investments from a stocks and shares ISA to a cash ISA (or vice versa).

ISAs are allowed to invest in cash (including bank and building society accounts and designated National Savings), stocks and shares (including unit trusts, investment funds and government securities with at least five years to run) and life assurance.

A wide range of securities including certain retail bonds with less than five years before maturity, Core Capital Deferred Shares issued by building societies, listed bonds issued by Co-operative Societies and Community Benefit Societies and SME securities that are admitted to trading on a recognised stock exchange are eligible to be held in an ISA, Junior ISA or Child Trust Fund (CTF).

The Innovative Finance ISA can be used for loans arranged via a peer-to-peer (P2P) platform. Peer-to-peer lending is a small but rapidly growing alternative source of finance for individuals and businesses. The Innovative Finance ISA may also invest in debt securities offered via crowdfunding platforms. Existing peer-to-peer loans or crowdfunding debentures cannot be transferred into Innovative Finance ISAs.

Withdraw and replace monies

Money can be withdrawn from an ISA without any of the tax benefits being lost. ISA savers may be able to withdraw and replace money from their cash ISA without it counting towards their annual ISA subscription limit for that year where they hold a 'Flexible ISA'.

Additional ISA allowance for spouses on death

An additional ISA allowance is available for spouses or civil partners when an ISA saver dies. The additional ISA allowance is equal to the value of a deceased person's accounts at the time of their death and is in addition to the normal ISA subscription limit. There are time limits within which the additional allowance has to be used. In certain circumstances an individual can transfer to their own ISA non-cash assets such as stocks and shares previously held by their spouse.

In most cases, it is envisaged that the additional allowance will be used to subscribe to an ISA offered by the same financial institution that provided the deceased person's ISA. As the rules allow the transfer of stocks and shares directly into the new ISA, in many cases the effect will be that the investments are left intact and the spouse becomes the new owner of the deceased person's ISA.

The tax advantaged treatment of ISAs continues whilst an individual's estate is in administration.

Tax advantages

The income from ISA investments is exempt from income tax.

Any capital gains made on investments held in an ISA are exempt from capital gains tax.

Any ISAs held on death will form part of a person's estate for inheritance tax purposes.

Comment

The halving of the dividend allowance from £1,000 to £500 in 2024/25 and the reduction in the CGT annual exempt amount from £6,000 to £3,000 in 2024/25, make ISA accounts more attractive for tax efficient share investments going forward.

Uses of an ISA

Many people use an ISA in the first instance to save for a rainy day. Since they were first introduced people have used them to save for retirement, to complement their pension plans or to save for future repayment of their mortgage to give just a few examples. We have known young people, wary of commitment to long-term saving start an ISA and when more certain of the future use it as a lump sum to start another financial plan.

Help to Buy ISA

The Help to Buy ISA, which provides a tax-free savings account for first time buyers wishing to save for a home.

Help to Buy ISA accounts were available until 30 November 2019, when this type of account was withdrawn for new savers. Those individuals that already have an account can keep saving until 30 November 2029, when accounts will close to additional contributions. An individual must claim their bonus by 1 December 2030.

The scheme provides a government bonus to each person who has saved into a Help to Buy ISA at the point they use their savings to purchase their first home. For every £200 a first time buyer saves, the government will provide a £50 bonus up to a maximum bonus of £3,000 on £12,000 of savings.

Help to Buy ISAs are subject to eligibility rules and limits:

- An individual was only eligible for one account throughout the lifetime of the scheme and it was only available to first time buyers.
- Interest received on the account will be tax-free.
- Savings are limited to a monthly maximum of £200. There was an opportunity to deposit an additional £1,000 when the account was first opened.
- The government will provide a 25% bonus on the total amount saved including interest, capped at a maximum of £3,000 which is tax-free.
- The bonus will be paid when the first home is purchased.
- The bonus can only be put towards a first home located in the UK with a purchase value of £450,000 or less in London and £250,000 or less in the rest of the UK.
- The government bonus can be claimed at any time, subject to a minimum bonus amount of £400.
- The accounts are limited to one per person rather than one per home so those buying together can both receive a bonus.

Lifetime ISA

A Lifetime ISA is available for adults under the age of 40. Individuals are able to contribute up to £4,000 per year and receive a 25% bonus (up to £1,000) on the contributions from the government, up until the age of 50. Funds, including the government bonus, can be used to buy a first home at any time from 12 months after opening the account, and can be withdrawn from age 60 completely tax-free.

The Lifetime ISA can be used to invest in cash or stocks and shares.

Further details of the Lifetime ISA are as follows:

- The savings and bonus can be used towards a deposit on a first home worth up to £450,000 across the country, for retirement (aged 60 and over) or where the account holder is terminally ill (with less than 12 months to live).
- Where the funds are withdrawn for any other reason than those listed above, they will have to pay a 25% charge (clawback of the government bonus).
- The annual £4,000 allowance will form part of a person's total ISA annual allowance of £20,000.
- There is no maximum monthly contribution.
- Over a lifetime of contributing to the ISA, a person can save up to £128,000 and receive up to £32,000 of government bonus.
- From a person's 50th birthday, no further contributions are allowed and no government bonus is available, although the account will continue to earn interest or investment returns.
- After the account holder's 60th birthday they will be able to take all the savings tax-free.
- In contrast to the Help to Buy ISA, the Lifetime ISA can be used to fund the initial deposit on the home whereas the Help to Buy bonus can only fund the completion of the purchase. The deposit must be paid within 90 days of completion.

- Where funding a house purchase, two first-time buyers can both use their Lifetime ISAs, provided the other conditions are still met.
- An individual that has a Help to Buy ISA may transfer those savings into a Lifetime ISA, or continue saving into both. However, only the bonus from one account can be used to buy a house.

Junior Individual Savings Account (Junior ISA)

Junior ISAs are available for UK resident children under the age of 18 who do not have a CTF account. Junior ISAs are tax advantaged and have many features in common with ISAs. They can be cash or stocks and shares based products. The annual subscription limit for Junior ISA and CTF accounts remains at £9,000 for 2024/25 and 2025/26. When a child turns 18, the Junior ISA automatically converts into an adult ISA.

A transfer of savings from a CTF to a Junior ISA is permitted at the request of the registered contact for the CTF.

The CTF scheme closed in 2011. CTF accounts started to mature in September 2020 when the first qualifying children reached 18. Without regulatory change the investments would lose their tax advantaged status. CTF and ISA regulations have therefore been made which:

- make sure that investments in CTF accounts retain their tax advantaged status post maturity, pending instructions from the account holder
- allow savings transferred from a matured CTF to be disregarded for the annual ISA subscription limit.

How we can help

Please contact us if you would like any further information on ISAs.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Inheritance Tax Avoidance - Pre-Owned Assets

Nunn Hayward
Chartered Accountants

Inheritance tax (IHT) was introduced nearly 40 years ago and broadly charges tax on certain lifetime gifts of capital and estates on death.

With IHT came the concept of 'potentially exempt transfers' (PETs). Put simply,this is a gift by an individual of capital to another individual and, so long as you live for seven years from making the gift, there can be no possible IHT charge on it whatever the value of the gift. The rules create uncertainty until the seven year period has elapsed but, at the same time, opportunity to pass significant capital value down the generations without an IHT charge. Of course tax is not simple and other factors, both tax and non-tax need to be considered before undertaking such transactions.

In any case,many people are simply not in a position to make significant lifetime gifts of capital. There are a number of reasons for this, the most obvious being that their capital is tied up in assets such as the family home and business interests and/or it produces income they need to live on.

Gifting the family home?

But what is to stop a gift of the family home being made to, say, your (adult) children whilst you continue to live in it? The answer is simple: nothing! However such a course of action is unattractive not to say foolhardy for a number of reasons the most significant being:

- security of tenure may become a problem
- loss of main residence exemption for capital gains tax purposes
- it doesn't actually work for IHT purposes.

The reason such a gift doesn't work for IHT is because the 'gift with reservation' (GWR) rules deem the property to continue to form part of your estate because you continue to derive benefit from it by virtue of living there. This is a complex area so do get in touch if you would like some advice.

Getting around the rules

To get around the GWR rules a variety of complex schemes were developed, the most common being the 'home loan' or 'double trust' scheme, which allowed continued occupation of the family home whilst removing it from the IHT estate. For an individual with a family home worth say £750,000 the prospect of an ultimate IHT saving of £300,000 (being £750,000 x 40%) was an attractive one.

HMRC's response

Over time the schemes were tested in the courts and blocked for the future.

However, HMRC decided that they needed additional measures to support circumstances where the GWR rules may not strictly apply but nevertheless, a gift has been effected and a benefit retained. A new income tax charge was introduced instead, levied on the previous owner of an asset if they continue to be able to enjoy use of the asset or the capital. The rules are referred to as the Pre-Owned Assets (POA) rules. They are aimed primarily at land and buildings but also apply to chattels and certain intangible assets commonly held in a trust.

Scope

In broad outline, the rules apply where an individual successfully removes an asset from their estate for IHT purposes (i.e. the GWR rules do not apply) but is able to continue to use the asset or benefit from it.

Example 1

Ed gave his home to his son Oliver in 2014 by way of an outright gift and Ed continues to live in the property.
This is not caught by the POA rules because the house is still part of Ed's IHT estate by virtue of the GWR rules. THe GWR rules override the fact that the gift was also a PET made more than seven years earlier.

Example 2

In 2015 Hugh made a gift of cash to his daughter Caroline. Caroline later used the cash to buy a property which Hugh then moved into in 2020. The POA rules apply.
The rules would still apply even if Caroline had used the initial cash to buy a portfolio of shares which she later sold using the proceeds to buy a property for Hugh to live in.

If Hugh's occupation of the property had commenced in 2023, the POA rules would not apply because there is a gap of more than seven years between the gift and occupation.
There are a number of exclusions from the rules, one of the most important being that transactions will not be caught where a property is transferred to a spouse or former spouse under a court order.

Start date - retrospection?

Despite the fact that the regime is only effective from 6 April 2005, it can apply to arrangements that may have been put in place at any time since March 1986. This aspect of the rules has come in for some harsh criticism. At the very least it means that pre-existing schemes need to be reviewed to see if the charge will apply.

Calculating the charge

The charge is based on a notional market rent for the property. Assuming a rental yield of, say, 5%, the income tax charge for a higher rate taxpayer on a £1 million property will be £20,000 each year.

The rental yield or value is established assuming a tenant's repairing lease.

Properties need to be valued once every five years. In situations where events happened prior to 6 April 2005, the first year of charge was 2005/06 and the first valuation date was 6 April 2005. In these cases a new valuation should have been made on 6 April 2010, 6 April 2015 and 6 April 2020.

In the case of chattels and intangibles the capital value on which the charge is calculated needs to be reviewed every year.

The charge is reduced by any actual rent paid by the occupier – so that there is no charge where a full market rent is paid.

The charge will not apply where the deemed income in relation to all property affected by the rules is less than £5,000.

The rules are more complex where part interests in properties are involved.

Avoiding the charge

There are a number of options for avoiding the charge where it would otherwise apply.

- Consider dismantling any remaining old schemes or arrangements. However this may not always be possible and even where it is the costs of doing so may be prohibitively high and specialist legal and tax advice is required.
- Ensure a full market rent is paid for occupation of the property - not always an attractive option.
- Elect to treat the property as part of the IHT estate – this election cannot be revoked once the first filing date for a POA charge has passed.

The election

The effect of the election using the example above is that the annual £20,000 income tax charge will be avoided but instead the £1 million property is effectively treated as part of the IHT estate and could give rise to an IHT liability of £400,000 for the donee one day. Whether or not the election should be made will depend on personal circumstances but the following will act as a guide.

Reasons for making the election

Where the asset qualifies for business or agricultural property reliefs for IHT.

Where the value of the asset is within the IHT nil rate band even when added to other assets in the estate.

Where the asset's owner is young and healthy.

Reasons not to make the election

The life expectancy of the donor is short due to age or illness and the income tax charge for a relatively short period of time will be substantially less than the IHT charge.

The amount of the POA charge is below the £5,000 de minimis.

The donor does not want to pass the IHT burden to the donee.

The election must be made by 31 January in the year following that in which the charge would first apply. HMRC will however allow a late election at their discretion.

What now?

The rules undoubtedly make effective tax planning with the higher value family home more difficult. However, they do not rule it out altogether and the ideas we mention below may be appropriate depending on your circumstances.

In addition, the introduction of the Residence Nil Rate Band from 6 April 2017 has restricted the need to consider this type of planning for homes up to £350,000 (£175,000 for a single person) per married couple (including registered civil partners) because, provided the home is left to direct descendants on death, the transaction is relieved from IHT. Where the home has a value exceeding £350,000, the amount charged will still be reduced, provided the estate does not exceed £2 million. Where it does exceed £2 million (before other reliefs given) the relief is gradually tapered to nil.

Sharing arrangements

Where a share of your family home is given to a family member (say an adult child) who lives with you, both GWR and the POA charge can be avoided. The expenses of the property should be shared. This course of action is only suitable where the sharing is likely to be long term and there are no other family members who would be compromised by the making of the gift.

Equity release schemes

Equity release schemes whereby you sell all or part of your home to a commercial company or bank have been popular in recent years. Such a transaction is not caught by the POA rules.

If the sale is to a family member, a sale of the whole property is outside the POA rules but the sale of only a part is caught if the sale was on or after 7 March 2005.

The cash you receive under such a scheme will be part of your IHT estate but you may be able to give this away later.

Wills

Wills are not affected by the regime and so it is more important than ever to ensure you have a tax-efficient Will.

Summary

This is a complex area and professional advice is necessary before embarking on any course of action. The POA rules are limited in their application but having said that they have the potential to affect transactions dating back to March 1986.

How we can help

Please do contact us if you have any questions or would like some IHT planning advice.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Inheritance Tax - A Summary

Inheritance Tax (IHT) is levied on a person's estate when they die and certain gifts made during an individual's lifetime.

In this factsheet the term spouse includes married couples and registered civil partners. Generally, gifts between spouses are exempt. More detail on this aspect and other specific exemptions is included below. Where an exemption does not apply, most gifts made more than seven years before death will also escape tax. Therefore, if you plan in advance, gifts can be made tax-free and result in a substantial tax saving.

We give guidance below on some of the main opportunities for minimising the impact of the tax.

It is however important for you to seek specific professional advice appropriate to your personal circumstances.

Summary of IHT

Scope of the tax

When a person dies IHT becomes due on their estate. IHT can also fall due on some lifetime gifts but most are ignored providing the donor survives for seven years after the gift.

The rate of tax on death is 40% and 20% on lifetime transfers where chargeable. Currently, the first £325,000 is chargeable to IHT at 0% and this is known as the nil rate band.

Residence nil rate band

An additional nil rate band was introduced for deaths on or after 6 April 2017 where an interest in a qualifying residence passes to direct descendants.The amount of relief was initially phased in but is currently £175,000. For many married couples and registered civil partnerships (hereafter referred to as spouses in this factsheet) the relief is effectively doubled as each individual has a main nil rate band and each will also potentially benefit from the residence nil rate band.

The residence nil rate band can only be used in respect of one residential property which does not have to be the main family home but must at some point have been a residence of the deceased. Restrictions apply where estates (before reliefs) are in excess of £2 million.

Where a person died before 6 April 2017, their estate will not have qualified for the relief and if the first spouse has died since then they may not have used the relief. A surviving spouse may be entitled to an increase in the residence nil rate band if the spouse who died earlier has not used, or was not entitled to use, their full residence nil rate band. In fact this often results in a doubling of the residence nil rate band for the surviving spouse.

Downsizing

The residence nil rate band may also be available when a person downsizes or ceases to own a home on or after 8 July 2015 where assets of an equivalent value, up to the value of the residence nil rate band, are passed on death to direct descendants.

Charitable giving

A reduced rate of IHT applies where 10% or more of a deceased's net estate (after deducting IHT exemptions, reliefs and the nil rate band) is left to UK charities. In those cases the 40% rate will be reduced to 36%.

IHT on lifetime gifts

Lifetime gifts fall into one of three categories:

- a transfer to a company or a trust (except a disabled trust) is immediately chargeable
- exempt gifts which will be ignored both when they are made and also on the subsequent death of the donor, eg gifts to charity
- other outright transfers will be potentially exempt transfers (PETs) and IHT is only due if the donor dies within seven years of making the gift. An alternative way of looking at this is that they are potentially chargeable until seven years has passed. The primary example of a PET is a gift to another individual.

IHT on death

The main IHT charge is likely to arise on death. IHT is charged on the value of the estate treated as beneficially owned by the deceased. This may include certain types of interest in trust property. Furthermore:

- PETs made within seven years become chargeable
- there may be an additional liability because of chargeable transfers (usually lifetime gifts to trusts) made within the previous seven years.

Estate planning

Much estate planning involves making lifetime transfers to utilise exemptions and reliefs or to benefit from a lower rate of tax on lifetime transfers.

However, careful consideration needs to be given to other factors. For example a lifetime gift may save IHT but may alternatively create a Capital Gains Tax (CGT) liability. Furthermore the prospect of saving IHT should not be allowed to jeopardise the financial security of those involved.

Gifts between spouses

Gifts between spouses as stated earlier are generally fully exempt, if both are either UK 'long term resident' or both non 'long term resident'. Long term residence is residence of at least 10 years in the UK. Special rules apply where only one spouse is 'long term resident and it means that the spouse exemption may be restricted. It is recommended that advice is always sought if this applies to ensure reliefs are maximised. It may be desirable to use the spouse exemption to transfer assets to ensure that both spouses can make full use of lifetime exemptions, the nil rate band and PETs.

Gifts to individuals during their lifetime

As these gifts are PETs rather than chargeable transfers when made, no tax at all is due if the donor survives for seven years. Even where a death occurs within seven years IHT may be saved as a result of the lifetime gifts because the charge is based on the value at the date of the gift and does not include any growth on value to date of death.

These rules only apply to outright gifts. Where a benefit is retained, such as the gift of a house in which the donor continues to live rent free, special rules apply and the donor is treated as still owning the asset for IHT. Professional advice should always be taken before considering such actions.

Nil rate band and seven year cumulation

Chargeable transfers (such as lifetime gifts to trusts) covered by the nil rate band can be made without incurring any IHT liability. Once seven years have elapsed between chargeable transfers an earlier transfer is no longer taken into account in determining IHT on subsequent transfers. Therefore every seven years a full nil rate band will be available to make lifetime chargeable transfers.

Transferable nil rate band

It is possible for spouses and civil partners to transfer the nil rate band unused on the first death to the surviving spouse for use on the death of the surviving spouse/partner. On that second death, their estate will be able to use their own nil rate band and in addition the same proportion of a second nil rate band that corresponds to the proportion unused on the first death. This allows the possibility of doubling the nil rate band available on the second death. This arrangement can apply where the second death happens after 9 October 2007, generally irrespective of the date of the first death.

Annual exemption

An amount of £3,000 per annum may be given by an individual without an IHT charge. Any unused annual exemption may be carried forward one year only, for use in the tax year that immediately follows.

Small gifts

Gifts to individuals not exceeding £250 in total per tax year per recipient are exempt. The exemption cannot be used to cover part of a larger gift.

Normal expenditure out of income

Gifts which are made out of income which are typical and habitual and do not result in a fall in the standard of living of the donor are exempt. Payments under deed of covenant and the payment of annual premiums on life insurance policies would usually fall within this exemption.

Family maintenance

A gift for family maintenance does not give rise to an IHT charge. This would include the transfer of property made on divorce under a court order, gifts for the education of children or maintenance of a dependent relative.

Wedding presents

Gifts in consideration of marriage are exempt up to £5,000 if made by a parent with lower limits for other donors.

Gifts to charities

Gifts to UK registered charities are exempt provided that the gift becomes the property of the charity or is held for charitable purposes.

Business property relief (BPR)

When 'business property' is transferred there is a percentage reduction in the value of the transfer. Often this provides full relief. It is available on worldwide assets. In cases where full relief is available there is little incentive, from a tax point of view, to transfer such assets in lifetime. Additionally no CGT will be payable where the asset is included in the estate on death. Professional advice should be sought to determine whether you have qualifying business property.

Agricultural property relief (APR)

APR is similar to BPR in that it reduces the value of the transfer but it may not give full relief on the value. It is available on the transfer of agricultural property so long as various conditions are met. APR is restricted to UK assets only from April 2024.

Announcements have been made to restrict the combined amount of APR and BPR reductions that an individual can have from 6 April 2026. The proposals may have a significant impact for some clients. Please contact us to discuss if you have business or agricultural interests in excess of £1 million.

Use of trusts

Trusts can provide an effective means of transferring assets out of an estate whilst still allowing flexibility in the ultimate destination and/or permitting the donor to retain some control over the assets. Provided that the donor does not obtain any benefit or enjoyment from the trust, the property is removed from the estate.

We can advise you on whether a trust is suitable for your circumstances and the types of trust arrangements available.

Life assurance

Life assurance arrangements can be used as a means of removing value from an estate and also as a method of funding IHT liabilities.

A policy can also be arranged to cover IHT due on death. It is particularly useful in providing funds to meet an IHT liability where the assets are not easily realised, e.g. family company shares.

Complexity - is your Will up to date?

Individuals have both a nil rate and a potential residence nil rate band available to mitigate IHT. Careful consideration is needed by spouses as to whether these should be used in full or part on the first spouse death or whether they should be transferred to the second spouse for use. There are a number of factors to be considered including the overall value of the combined estate. Potentially a second spouse has £650,000 of standard nil rate band and £350,000 of residence nil rate band if nothing is used on the first death, in other words £1 million in total before IHT is chargeable.

This will only be achieved by careful planning however and, in some cases, it may be better for the first deceased spouse to give some assets to the next generation and use up their own nil rate band and residence nil rate band. Pivotal to this planning is an up to date Will to ensure that any reliefs available are efficiently utilised.

How we can help

Whilst some general tips can be made about IHT planning it is always necessary to tailor the strategy to fit your situation.

Any plan must take account of your circumstances and aspirations. The need to ensure your financial security (and your family's) cannot be ignored. If you propose to make gifts the interaction of IHT with other taxes needs to be considered carefully.

The scope for substantial savings may be missed unless professional advice is sought as to the appropriate course of action. We would welcome the opportunity to assist you in formulating a strategy suitable for your own requirements. Please do not hesitate to contact us.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Insolvency

Facing financial difficulties can cause a great deal of stress as well as taking its toll on health and relationships. There are a number of options available, but it is important to tackle the problem as early as possible.

Here we outline the options available and their implications for both personal and corporate insolvency.

Personal insolvency - bankruptcy

This is a formal legal process by which individuals deal with debts they are unable to pay. The bankruptcy process ensures that the assets of the individual are divided amongst those to whom money is owed (creditors). It is a way to make a fresh start free from the onerous debts, but the process does have an effect on your credit rating for six years after the order is made.

It is possible to declare yourself bankrupt, but creditors can also apply to make an individual who owes them money bankrupt too.

Once declared bankrupt the Official Receiver (or an insolvency practitioner) is appointed to take control of the individual's assets and they are referred to as the 'trustee in bankruptcy'. It is a legal requirement to co-operate with them in the orderly disposal of your assets. All assets are essentially transferred to the trustee, but you will be allowed to keep items which are necessary for work along with everyday household items such as furniture and clothing. The effect of bankruptcy is to freeze your bank accounts. It is possible to open a new account after the date of the bankruptcy, but you must tell the bank or building society that you are bankrupt.

If you own your home this can be sold to pay your creditors although there are protections if you have a partner or children living with you. A trustee can also sell your motor vehicle but can 'exempt' this if deemed necessary for work or family circumstances.

What if I'm self-employed?

If you are self-employed your business will be closed with any business assets being claimed by the trustee. You can commence trading again but there are a number of strict requirements which you will need to follow.

What will I have to pay?

The trustee will realise your assets for the benefit of your creditors but, if you can afford it, the trustee may require you to make payments towards your debts from your income for up to three years. There is a process for establishing an appropriate level of contribution based on your income and expenditure.

When does bankruptcy end?

Discharge from bankruptcy usually occurs after 12 months but can be extended if you don't co-operate with your trustee.

Are there other options?

Yes, there are, which is why it is important to seek professional advice on the most appropriate course of action as early as possible. There are alternatives to bankruptcy which may be preferable:

An Individual Voluntary Arrangement (IVA)

An agreement to settle all or part of your debts which can include regular payments or lump sum contributions. This is a formal agreement administered by an insolvency practitioner which can be quite onerous but essentially prevents creditors from taking action against you and avoids bankruptcy. However, failure to comply with the terms of the arrangement can ultimately still result in bankruptcy.

Debt management plan

An arrangement via a debt management company which will collect contributions from you and distribute them between your creditors. This type of arrangement is only available for unsecured borrowings.

Debt relief order

Available where debts are less than £30,000, where you have negligible spare income or assets which can be realised. This route has similar restrictions to bankruptcy.

Corporate insolvency

A company is deemed to be insolvent when it is unable to pay its debts as they fall due or has liabilities which exceed its assets. There are a number of legal procedures for dealing with a company's insolvency but the main avenue for this is to liquidate the company. Creditors can take action to recover the amounts owed to them through the courts which can result in an application to wind up the company if those debts remain unpaid. The directors of the company can also apply to wind up the company themselves.

If a company is to be wound up, or liquidated, it will cease trading and ultimately be struck off from the Companies House register and will cease to exist. An insolvency practitioner is appointed to act as the liquidator which involves realising the company's assets, settling any outstanding legal matters, before distributing any available funds to the creditors.

Corporate Insolvency and Governance Act 2020

The act introduced some temporary measures which expired in March 2022 however it also introduced some permanent changes to the insolvency process. This includes a company moratorium where, in certain circumstances, the company is given a statutory breathing space of 20 days where the directors retain control and are able to consider restructuring options without pressure from creditors. In certain circumstances and with the approval of the court this can be extended to 40 days.The moratorium is overseen by an insolvency practitioner, but responsibility for the day to day running of the company remains with the directors. The introduction of a moratorium is an important change to insolvency law in the UK that moves it closer towards the rescue culture seen in the US.

What are my responsibilities as a director?

The liquidator is appointed by a court to wind up the company. The liquidator has the responsibility of investigating why the company became insolvent and will ask you to provide the company's records and other information about the circumstances which led to the company being liquidated. You will be released from your obligations as a director on the appointment of the liquidator but have an ongoing legal obligation to co-operate with the liquidator.

What happens to me after an insolvent liquidation?

The liquidator will consider whether the insolvency resulted from conduct by the directors which is deemed to be unfit and contributed to the failure of the business. If that is the case a disqualification order can be sought which prevents you from acting as a director of a company for up to 15 years in the most serious cases.

Can I be liable personally for the company's debts?

There are provisions in UK insolvency legislation for 'wrongful trading' which means that you could potentially be personally liable for some of the company's debts. This occurs if you allowed the company to continue trading past the point at which it was apparent that an insolvent liquidation could not be avoided and took no action to minimise the losses faced by creditors.

Are there other options?

Yes, there are, which is why it is important to seek professional advice on the most appropriate course of action as early as possible. The following options are available:

Company Voluntary Arrangement (CVA)

A binding agreement supervised by an insolvency practitioner which provides for the payment of all, or part of the company's debts over a period of time. This requires the agreement of at least 75% of the creditors. It does, however, mean that the company is able to continue trading during the CVA and afterwards but a failure to comply with the terms of the arrangement can ultimately result in the company being liquidated.

Administration

This process essentially passes control of the company to an insolvency practitioner, the Administrator, which has the effect of preventing the creditors from taking legal action to recover their debts. The Administrator's role is to identify potential courses of action to make the company profitable again or to realise more funds than simply liquidating the company. It may be possible to sell the business as a going concern, for example.

Nunn Hayward
Chartered Accountants

How we can help

Whether facing bankruptcy on a personal level or in respect of a company in which you are a director it is vital that professional advice is obtained at the earliest opportunity so we can advise you of the options available. Please contact us for more information.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Insuring Your Business

When starting a new business, you will no doubt recognise the need for insurance. It can provide compensation and peace of mind should things go wrong but can also represent a significant cost.

In this factsheet we consider the different types of insurance you need to consider.

Compulsory insurance

Employers' liability insurance is compulsory to cover your employees. By law you must have at least £5 million of cover and this must come from an authorised insurer, although a minimum of £10 million is now provided by most policies. You must display the certificate of insurance in the workplace. If your business is not a limited company, and you are the only employee or you only employ close family members, you do not need compulsory employers' liability insurance. Limited companies with only one employee, where that employee also owns 50% or more of the company's shares, have also been exempt from compulsory employers' liability insurance.

Motor vehicles liability insurance is also compulsory and must cover third party insurance: this is the legal minimum.

Optional insurance

Other categories of insurance are optional and a decision as to whether or not you need cover under any given heading will depend on the nature of your business and an assessment of the risks.

Public liability

Although strictly this is not compulsory you will almost certainly feel that you need cover under this heading. It covers claims for damages to third parties.

Property

You can think about limiting cover to specific risks such as fire and flood or providing more general cover. Consider the level of cover you would need for the premises (if you own the building), equipment and stock. If you rent your premises then you should check that the landlord has the appropriate cover.

Theft

If your business does not involve expensive items of equipment then you might decide to pass on this one, at least initially. If you do decide to provide cover for theft then an insurer will require a reasonable minimum level of security.

Professional indemnity

This is only likely to be necessary if you give advice which could make you liable. It protects against any loss suffered by your customers as a result of negligent advice. In some professions it is compulsory – examples being the law, accountancy and financial services. However it is common in other sectors such as computer consultancy and publishing.

Business interruption

This covers compensation for lost profits and extra costs if your business is disrupted, due to say a fire. It is also referred to as 'consequential loss' insurance.

Key man

A small business is often dependent on key members of staff. What would happen if they became seriously ill or died? Do you need to consider insurance cover to pay out in such a situation?

Specialised insurance

A whole host of different policies cover a range of specialist situations – for example engineering insurance and computer policies.

Working from home

If you are planning to start your new business from home then don't assume that your normal household insurance will be enough. It will not usually cover business risks. It is possible to obtain special 'working from home' policies.

Shopping around

It may be stating the obvious but it is important to shop around to get the best deal. You should obtain several quotes and always be wary of cheap deals. A personal recommendation may be the best way to decide.

Level of cover

Again it may be stating the obvious but too much cover and your cash flow will suffer, too little and the consequences can be catastrophic.

Consider the level of cover you need. With buildings and equipment make sure you are covered for the full replacement cost.

If there is to be an excess on any policy make sure that it is set at a sensible level.

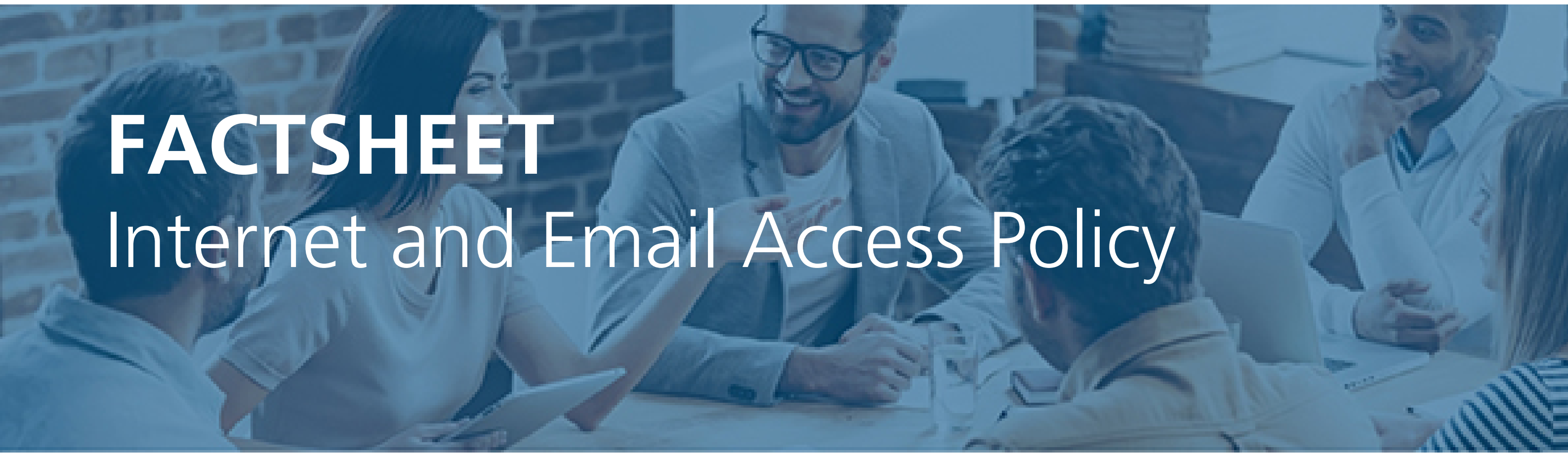
How we can help

Please talk to us if you would like any further help on insuring your business.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants



FACTSHEET
Internet and Email Access Policy

Nunn Hayward
Chartered Accountants

In order to protect the firm, its employees, customers and suppliers, all members of staff should be given a copy of the firm's policy regarding acceptable use of IT resources – particularly internet and email access, as well as data protection policies. It may also be necessary to have a separate Bring Your Own Device (BYOD) policy covering the use of personal devices and to what extent (if any) these are permitted to connect to corporate information systems.

Any such policies should form part of the contract of employment - to the extent that any breaches of the policy could result in disciplinary action, and in some cases even dismissal.

Having an acceptable use policy not only helps protect the organisation's exposure to rogue software, legal action, and loss of corporate/personal data, it can also help in disputes with employees.

Email

Employees need to be wary of the content of all emails they may send. One email sent thoughtlessly can have repercussions and unintended consequences, for both the employee and organisation, such as large penalty fines and reputational damage.

Illegal material

Due to the uncensored nature of the material on the internet, there are a large number of websites that contain offensive, obscene and illegal (in the UK) material. Employees should not access such sites and attempts to block these where possible should be made by the business.

Viruses and phishing

Innocent looking websites and emails have been used to tempt users to download material which has been found to contain a virus, or to disclose company, or personal confidential data where they would not normally be imparted.

Employees should be given training to recognise the tell-tale signs of bogus emails and how to perform simple checks online before submitting data to a website.

Employees should also be told what the procedures are should they fall victim to such attacks.

Personal phones, personal headsets and use of social networks

Firms may wish to include references to the use of personal phones, personal headsets and social networking. The use of these or restrictions on the use of these will very much depend on the working environment.

Model policy statement

To minimise these kinds of potential problems, employers should consider setting out a policy statement for all employees embracing internet and email access.

A suggested policy statement is shown below, which provide a useful starting point.

Policy and scope

The company/firm (delete as appropriate) sees the internet and the use of email as an important business tool.

Staff are encouraged to enhance their productivity by using such tools - but only in accordance with the guidelines set out in this document.

The internet is largely unregulated and uncensored and we have a duty of care to protect the security of the company's/firm's internal information, our customers, our suppliers and our employees from malevolent, obscene and illegal material.

Monitoring - Optional paragraphs - One

The company/firm reserves the right to monitor emails and internet sites visited by an employee. These may be performed at random or where there is a suspicion of behaviour which breaches the company's 'email and internet access' policy.

Staff will be informed by management that they may be monitored at any time, when using business systems.

Covert monitoring will only be performed in exceptional circumstances and only when sanctioned by a senior officer(s) of the company/firm.

Monitoring - Optional paragraphs - Two

The company/firm reserves the right to monitor email and internet traffic. However, individual users will not be identified in the monitoring process.

It will be assumed that all staff understand and agree to the policies unless a director (partner) is notified otherwise. Any exceptions are to be appended to the employee's contract of employment and signed by a director (partner) and the employee.

All the company's/firm's resources, including computers, access to the internet and email are provided solely for business purposes.

The purpose of this policy is to ensure that you understand to what extent you may use the computer(s) owned by the company/firm for private use. It covers the way in which access to the internet should be used within the company/firm, to comply with legal and business requirements.

This policy applies to all employees of the company/firm and failure to comply may lead to disciplinary action in line with the Disciplinary Procedure. In addition, if your conduct is unlawful or illegal you may be personally liable.

General principles

A computer and internet access is provided to you, to support the company's/firm's activities.

Private use of computers and the internet is permitted subject to the restrictions contained in this policy. Any private use is expected to be in the employee's own time and must not interfere with the person's job responsibilities. Private use must not disrupt IT systems, or harm the company/firm's reputation.

You should exercise caution in any use of the internet and should never rely on information received or downloaded without appropriate confirmation of the source.

Access to the internet and email

All/The following users have access to the internet and email from all/the following PCs...

Personal use

The internet may not be accessed for personal use during normal hours of employment. Occasional use for personal reasons is allowed outside working hours, however the restrictions set out in 'Browsing/downloading material' (below) must be adhered to.

Personal emails may not be sent/received unless in an emergency and with prior authority from a manager.

[Optional paragraph on Personal use of mobile phones, personal headsets and social networking]

Emails and email attachments

Emails must conform to the same rules as issuing correspondence on the company's/firm's headed paper.

Optional sentence - Emails must be authorised by either a director/ partner (or manager).

Emails must not contain controversial statements/opinions about organisations or individuals. In particular, racial or sexual references, disparaging or potentially libellous/defamatory remarks and anything that might be construed as harassment should be avoided.

Emails must not contain offensive material.

Emails containing a virus must not knowingly be sent.

Emails coming from an unknown source must not be opened but disclosed to management (see Disclosure).

Emails sent externally, must contain the company's/firm's disclaimer (see sample below)

Emails (sent and received) must be stored in the appropriate client files and use the same naming conventions which are used to store letters and other correspondence.

Emails sent with attachments containing any sensitive data must be encrypted and password protected. Passwords should never be sent by email. Where possible try to send this data by other means.

Browsing/downloading material

Only material from bona fide business, commercial or governmental websites should be browsed/downloaded.

No other material should be browsed/downloaded. This specifically includes games, screensavers, music/video and illegal, obscene or offensive material.

Laptops/portables and portable media devices

a) Travelling with laptops/portables

- Laptops are liable to be inspected by authorities, particularly if travelling by air/sea/rail, both within and outside the UK. Where an employee has a company's/firm's laptop they must ensure that it does not knowingly contain illegal material.
- Laptops containing corporate data should be encrypted.

b) Using laptops/portables on remote connections

- Company's/firm's laptops may be used for email/internet use without being connected to the corporate server. Appropriate security software to allow such access and to mitigate the risk of viruses or hacking, should be installed.

c) Using portable media devices

- Portable media devices include USB drive, CDs, DVDs etc
- Where these contain confidential corporate or personal data, the data contained on these devices should be encrypted.
- Where using portable devices, only business approved devices should be used.

Disclosure

Employees have a duty to report the following to management:

- suspect emails/email attachments/websites
- obscene/illegal material found on a PC
- persistent use of the internet for personal reasons
- persistent downloading of illegal/obscene/offensive material
- loss of corporate data or loss of machines and devices containing corporate data

Disciplinary

A breach of any of the policies is a disciplinary matter.

Illegal activities will also be reported to the relevant authorities.

Inappropriate use

Computers are a valuable resource to our business. However, if used inappropriately may result in severe consequences to both employees and the company/firm. The company/firm is particularly at risk when employees have access to the internet. The nature of the internet makes it impossible to define all inappropriate use.

However, employees are expected to ensure that employee use of computers and the internet meets the general requirements of professionalism.

Specifically, during any use of the computer or internet employees must not:

- copy, upload, download or otherwise transmit commercial software or any copyrighted materials belonging to the company/firm or other third parties
- use any software that has not been explicitly approved for use by the company/firm
- copy or download any software or electronic files without using virus protection measures approved by the company/firm
- visit internet sites or download any files that contain indecent, obscene, pornographic offensive or other objectionable materials
- make or post indecent, obscene, pornographic, offensive or otherwise objectionable remarks, proposals or materials on the internet
- reveal or publicise confidential or proprietary information (including personal data) about the company/firm, our employees, clients and business contacts.

The following activities are expressly forbidden:

- the deliberate introduction of any form of computer virus
- seeking to gain access via the internet to restricted areas of the company's/firm's computer system or another organisation's or person's computer systems or data without authorisation or other hacking activities
- downloading corporate information onto portable media devices (such as a USB drive or CD) unless management has expressly approved this activity
- uploading personal/private information (for example music, films or photographs) from portable media devices (such as a USB drive or CD) onto a local or network drive, unless management has expressly approved this activity
- installation of any software not pre-approved by the business.

Monitoring

At any time and without notice, we maintain the right and ability to examine any systems and inspect and review any and all data recorded in those systems. Any information stored on a computer, whether the information is contained on a hard drive, computer disk or in any other manner may be subject to scrutiny by the company/firm. This examination helps ensure compliance with internal policies and the law. It supports the performance of internal investigations and assists the management of information systems.

In order to ensure compliance with this policy, the company/firm may employ monitoring software to check on the use of the internet and block access to specific websites to ensure that there are no serious breaches of the policy. We specifically reserve the right for authorised personnel to access, retrieve, read and delete any information that is generated, received or sent as a result of using the internet, to assure compliance with all our policies. Such monitoring will be used for legitimate purposes only.

Sample email disclaimer

This email and all attachments it may contain are confidential and intended solely for the use of the individual to whom it is addressed. Any views or opinions presented are solely those of the author and do not necessarily represent those of [the company/firm]. If you are not the intended recipient, be advised that you have received this email in error and that any use, dissemination, printing, forwarding or copying of this email is strictly prohibited.

Please contact the sender if you have received this email in error.

Companies Act 2006 emails and websites

Under company law, every company must include their company registration number, place of registration and registered office address on corporate forms and documentation (this includes emails and websites).

In particular, all external emails must include this information - whether as part of the corporate signature or as part of the corporate header/footer.

How we can help

We will be more than happy to provide you with assistance in formulating an acceptable use policy, or if any additional information is required.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Land Transaction Tax

Land Transaction Tax (LTT) is payable by the purchaser of property in Wales.

Who pays the tax?

LTT is payable by the purchaser of residential or non-residential property in a land transaction occurring in Wales. Stamp Duty Land Tax (SDLT) is payable on land transactions in England and Northern Ireland and Land and Buildings Transaction Tax (LBTT) on land transactions in Scotland.

What is a land transaction?

A transaction will trigger liability to LTT if it involves the acquisition of an interest in land. This will include a simple conveyance of land, such as buying a house, creating a lease or assigning a lease.

LTT is operated by the Welsh Revenue Authority (WRA), and individuals who are liable to the tax must complete and submit an LTT return (see later).

When is the tax payable?

Individuals must send an LTT return and pay the tax due to the WRA within 30 days of the day after completion (or other effective date of the transaction). Penalties and interest may be charged if you fail to file your LTT return or pay the necessary tax within the 30 days after the day of completion.

In some circumstances, the transaction is not notifiable and the acquirer is not required to send a LTT return or pay LTT. These include both exempt transactions and exceptions:

- no money has exchanged hands (exempt)
- a property is left to you and you are not required to make a payment for the transfer of the property (exempt)
- property ownership is transferred to you as a result of a divorce or the dissolution of a civil partnership (exempt)
- freehold property has been purchased for less than £40,000 (exception)
- a new or assigned lease of seven years or more is purchased, and the premium is less than £40,000 and the annual rent is less than £1,000 (exception)
- a lease assignment or surrender, where the original term was:
  - less than seven years and the amount you pay is less than the residential or non-residential LTT zero rate threshold.
  - more than seven years and the amount you pay is less than £40,000 (exceptions).

What if my property straddles the England-Wales border?

For cross-border cases, a home buyer will only be required to pay SDLT on the English part of the transaction and LTT to the WRA for the Welsh part of the transaction.

LTT rates

Non-residential rates have been applicable since 22 December 2020:

Non-residential (£)	Band % Rate
Up to 225,000	0
225,001 - 250,000	1
250,001 - 1,000,000	5
Over 1,000,000	6

The residential rates have applied from 10 October 2022:

Residential (£)	Band % Rate
Up to 225,000	0
225,001 - 400,000	6
400,001 - 750,000	7.5
750,001 - 1,500,000	10
Over 1,500,000	12

The higher rates for the purchase of a second or subsequent residential property or residential properties purchased by companies/non-natural persons which have been increased by 1% from 11 December 2024 are:

Residential (£)	Band % Rate
Up to £180,000	5
180,001 - 250,000	8.5
250,001 - 400,000	10
400,001 - 750,000	12.5
750,001 - 1,500,000	15
Over 1,500,000	17

The higher rates for the purchase of a second or subsequent residential property or residential properties purchased by companies/non-natural persons that applied from 22 December 2022 to 10 December 2024 were:

Residential (£)	Band % Rate
Up to £180,000	4
180,001 - 250,000	7.5
250,001 - 400,000	9
400,001 - 750,000	11.5
750,001 - 1,500,000	14
Over 1,500,000	16

First-time buyers

Unlike SDLT and LBTT, LTT does not provide any relief for first-time homebuyers in Wales.

How we can help

If you are planning to enter into an arrangement to purchase land, we can advise you of the precise impact of LTT on the transaction, so please contact us.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Land and Buildings Transaction Tax

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

Land and Buildings Transaction Tax (LBTT) is payable on the acquisition of a chargeable interest of land or buildings in Scotland. It replaces UK Stamp Duty Land Tax (SDLT) for transactions in Scotland from April 2015.

Who pays the tax?

LBTT is payable by the purchaser in a land transaction occurring in Scotland. Stamp Duty Land Tax (SDLT) applies to land transactions in England and Northern Ireland and Land Transaction Tax (LTT) applies in Wales.

What is a land transaction?

A transaction will trigger liability if it involves the acquisition of an interest in land. This includes a simple conveyance of land such as buying a house, creating a lease or assigning a lease.

When is the tax payable?

The tax has to be paid when a contract has been substantially performed. In cases where the purchaser takes possession of the property on completion, that will be the date. However, if the purchaser effectively takes possession before completion - known as 'resting on contract' - that will be regarded as triggering the tax.

Residential rates of LBTT

The rates of LBTT which apply from 1 April 2021 are set out in the following table:

Residential property	Band % Rate
£0 - £145,000	0
£145,001-£250,000	2
£250,001 - £325,000	5
£325,001 - £750,000	10
£750,001 and over	12

The rates apply to the portion of the total value which falls within each band.

First-time buyer relief

A LBTT relief applies for first-time buyers of properties up to £175,000. The relief raises the zero tax threshold for first-time buyers from £145,000 to £175,000. First-time buyers purchasing a property above £175,000 also benefit from the relief on the portion of the price below the threshold. All first-time buyers will benefit from a relief of up to £600.

Higher rates for additional residential properties

Higher rates of LBTT are charged on purchases of additional residential properties (above £40,000), such as buy to let properties and second homes.

The main target of the higher rates is purchases of buy to let properties or second homes. However, there will be some purchasers who will have to pay the additional charge even though the property purchased will not be a buy to let or a second home. The 36 month rules set out below will help to remove some transactions from the additional rates (or allow a refund). The 36 month timeframe was extended from 18 months with effect from 1 April 2024. Care will be needed if an individual already owns, or partly owns, a property and transacts to purchase another property without having disposed of the first property.

The higher rates are 8% above those shown in the table above, having increased from 6% from 5 December 2024. The higher rates potentially apply if, at the end of the day of the purchase transaction, the individual owns two or more residential properties.

Some further detail:

- Purchasers will have 36 months to claim a refund of the higher rates if they buy a new main residence before disposing of their previous main residence.

- Purchasers will also have 36 months between selling a main residence and replacing it with another main residence without having to pay the higher rates, if they also own another property which is not their main residence.
- A small share in a property which has been inherited within the 36 months prior to a transaction will not be considered as an additional property when applying the higher rates.
- There will be no exemption from the higher rates for significant investors.

Non-residential rates of LBTT

Non-residential	Band % Rate
£0 - £150,000	0
£150,001 - £250,000	1
£250,001 and over	5

The Scottish government has LBTT calculators which work out the amount of LBTT payable. The calculators can be found at www.revenue.scot/land-buildings-transaction-tax/tax-calculators.

How we can help

If you are planning to enter into an arrangement to purchase land, we can advise you of the precise impact of LBTT on the transaction so please contact us.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Limited Liability Partnerships

Most important features of LLPs

The key advantage of a LLP compared with a traditional partnership is that the members of the LLP (it is very important that they should not be called partners but members) are able to limit their personal liability if something goes wrong with the business, in much the same way as shareholders in a company have always been able to do. Of course anyone lending money to the LLP such as a bank may still require personal guarantees from the members, as they frequently do with directors/shareholders in a company.

Where business owners have wanted to limit their personal liability in the past, they have normally set up companies and any profits made by those companies are subject to corporation tax. Dividends paid by the companies can then be taken as income of the shareholders. LLPs are taxed quite differently in that the profits are treated as the personal income of the members as if they had run their business as a partnership. The taxation of companies and partnerships is very different but taxation should not be the main consideration in choosing a business vehicle. However, some LLP members can be taxed as if they are employees in certain circumstances (see Tax treatment for certain LLP members). We would be very pleased to discuss the impact of this in any particular case.

LLPs must produce and publish financial accounts with a similar level of detail to a similar sized limited company. LLPs must submit accounts and an annual return to the Registrar of Companies each year. This publication requirement is far more demanding than the position for non-incorporated partnerships and specific accounting rules may lead to different profits from those of a normal partnership. The filing deadline is nine months after the period end. Companies House provides a useful guide to the requirements in respect of LLP accounts.

Setting up LLPs or converting an existing partnership

A LLP is set up by a legal incorporation process which involves sending certain documents to the Registrar of Companies along with the relevant fee. Although it is not legally necessary, every LLP should have a thorough and comprehensive members' agreement in place and needs to have taken legal or professional advice about the issues that should be covered by this agreement. In the absence of a members' agreement the law makes a number of assumptions about the LLP which may not reflect what the individual members intended should there be a dispute.

Existing partnerships can convert to a LLP by exactly the same process of incorporation and providing there are no changes in membership or in the way in which the partnership operates, there may well be no impact on the partnership's tax position. Again care and advice needs to be taken before any decisions are made.

It is not possible for a limited company to convert into a LLP and there will be a significant legal and taxation impact where a LLP takes over the business of a company.

Companies House provides a useful guide to the legislation and background to Limited Liability Partnerships.

Which businesses might want to use a LLP?

The types of business that LLPs were originally designed for were professional partnerships such as lawyers, surveyors and accountants. In many of these cases, though not all, they have not been able to operate through limited companies because of restrictions from their professional associations and the option of using a LLP offers some advantages.

However other businesses may also benefit from using LLPs, particularly new start-ups who might otherwise have formed limited companies.

What liability might members of a LLP have if something goes wrong?

Because LLPs are relatively new compared to other forms of businesses, there are no decisions yet by the courts where something has gone wrong. This is therefore a hard question to answer but it looks as if the following describes the position as most people understand it at present:

- if, for example, a member of a LLP were to give bad advice to a client and the client suffered a loss as a result, the client may be able to take the LLP to court and be awarded appropriate compensation
- in certain circumstances it could be possible that the member who actually gave the advice may also be required by a court to pay compensation to the client

Nunn Hayward
Chartered Accountants

- it is however probable that any other members who were not directly involved in the advice will not have any personal liability. In a normal partnership it is quite possible that they would have had a personal liability.

It will still be essential for LLPs (and individual members) who might find themselves in this position to have suitable insurance cover.

The other area that needs to be considered is to do with what the law calls unlawful or insolvent trading. In just the same way as company directors can be prosecuted for these offences, members of a LLP can also be prosecuted (and can be disqualified from being a member of a LLP in the future).

A decision to use a LLP?

Any decision to convert an existing partnership or to set up a new business using a LLP is a complex one, involving legal, accounting and tax issues.

Tax treatment for certain LLP members

The LLP is a unique entity as it combines limited liability for its members with the tax treatment of a traditional partnership. Individual members can be deemed to be self-employed and taxed on their respective profit shares.

However, deemed self-employed status is not automatic for all members. For example, individuals who would normally be regarded as employees in high-salaried professional areas such as the legal and financial services sectors originally benefited from self-employed status for tax purposes which resulted in a loss of employment taxes payable. As a result the tax treatment of certain LLP members was changed so that their taxes are paid under PAYE.

The rules apply when an individual is a member of an LLP and three conditions are met. The conditions are:

- There are arrangements in place under which the individual is to perform services for the LLP, in their capacity as a member, and it would be reasonable to expect that the amounts payable by the LLP in respect of their performance of those services will be wholly, or substantially wholly, disguised salary. An amount is disguised salary if it is fixed or, if variable, it is varied without reference to the overall profits of the LLP.
- The mutual rights and duties of the members and the LLP and its members do not give the individual significant influence over the affairs of the LLP.
- The individual's contribution to the LLP is less than 25% of the disguised salary. The individual's contribution is defined (broadly) as the amount of capital which they contributed to the LLP.

How we can help

We would be delighted to discuss these issues with you and demonstrate what the impact on your business would be. Please contact us for further information.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Making Tax Digital for Individuals

The government has started phasing in its landmark Making Tax Digital (MTD) initiative, which will see taxpayers move to a fully digital tax system.

In this factsheet we outline some of the key issues for individuals including the Personal Tax Account and Simple Assessment.

Making Tax Digital

Making Tax Digital for Business (MTDfB) was introduced in the 2015 Spring Budget. The government's 'Making Tax Easier' document was published shortly after, and outlined plans for the 'end of the tax return'. It also set out the government's vision to modernise the UK's tax system, with digital tax accounts set to replace tax returns for ten million individuals and five million small businesses.

Revised timescales

However, industry experts and those within the accountancy sector expressed concerns over the proposed pace and the scale of the introduction of MTDfB. As a result, the government amended the initial timetable for the initiative's implementation, to allow businesses and individuals 'plenty of time to adapt to the changes'.

The mandation of MTD for Income Tax will now be introduced from April 2026, with businesses, self-employed individuals and landlords with income over £50,000 mandated to join first, a change from the original £10,000 limit.

Those with income over £30,000 will be mandated from April 2027.

Following the new approach, the government will not extend MTD for Income Tax to general partnerships in 2026.

What will be required?

Making Tax Digital for Income Tax is a new way of reporting income and expenses if you're a sole trader or landlord.

Under the new way of reporting, sole traders and landlords will use compatible software that enables them to:

- create and store digital records of their business income and expenses
- send quarterly updates to HMRC
- submit a tax return and pay tax due by 31 January the following year.

Although MTD has been paused for individuals until at least 2026, HMRC has already introduced the Personal Tax Account and Simple Assessment.

The Personal Tax Account

Personal Tax Accounts (PTAs) are digital tax accounts for individuals that have been created by HMRC, and are pre-populated with information held by it. PTAs are designed to permit individual taxpayers to communicate with HMRC, allowing them to update their financial details and check their tax affairs in real time.

Taxpayers may make use of a PTA to make tax payments, provide bank details to HMRC for tax refund purposes and provide details of taxable benefits from employment: for example, the use of a company car.

Individuals can register for a PTA by visiting www.gov.uk/personal-tax-account. The government predicts that, over time, the requirement to complete and file a tax return will lessen for those with straightforward tax affairs.

Simple Assessment

Under Simple Assessment, HMRC has the power to assess an individual's liability to income tax or capital gains tax, without the taxpayer having to fill out and submit a tax return.

Simple Assessment may be used to deal with the tax liabilities of:

- state pensioners whose state pension is higher than their personal tax allowance, where the tax owed cannot be collected via their tax code
- taxpayers with PAYE liabilities who have underpaid tax and cannot have it collected via their tax code.

Taxpayers are required to ensure that the information provided by HMRC is correct, and pay their income tax liability online, or by cheque, before a specific deadline, as outlined within the letter they receive. If the taxpayer believes the information to be incorrect, customers are given 60 days to contact HMRC.

Those that miss the deadline are encouraged to contact HMRC in order to discuss their circumstances. Individuals who fail to do so may be subject to penalties.

How we can help

No matter your personal circumstances MTD will undoubtedly affect you in the long term. Please contact us for more information on MTD.

01753 888211 | info@nhllp.com | www.nhllp.com

FACTSHEET
Making Tax Digital for VAT

Over the coming years, the government will phase in its landmark Making Tax Digital (MTD) initiative, which will see taxpayers move to a fully digital tax system.

This factsheet outlines some of the key issues for businesses.

Making Tax Digital for Business

Making Tax Digital for Business (MTDfB) was introduced in the 2015 Spring Budget. The government's 'Making Tax Easier' document was published shortly after, and outlined plans for the 'end of the tax return'. It also set out the government's vision to modernise the UK's tax system, with digital tax accounts set to replace tax returns for ten million individuals and five million small businesses.

Revised timescales

However, industry experts and those within the accountancy sector expressed concerns over the proposed pace and the scale of the introduction of MTDfB, and, as a result, the government amended the timetable for the initiative's implementation, to allow businesses and individuals 'plenty of time to adapt to the changes'.

MTDfB, starting with VAT, took effect from 1 April 2019, as summarised below.

Making Tax Digital for VAT (MTDfV)

Under the rules, all VAT registered businesses must keep digital records for VAT purposes and provide their VAT return information to HMRC using MTD functional compatible software.

Only a small handful of businesses are exempt from complying with MTDfV. Please contact us if you believe your business may be exempt. The only automatic exemptions arise where a business is already exempt from filing VAT returns online or it is formally insolvent.

HMRC also has discretion to grant exemption in very limited circumstances, such as if they are persuaded a business is unable to use a computer, software or the internet for reasons such as disability, location or on religious grounds. Businesses are able to make an appeal against a HMRC refusal of exemption.

Enrolment

Since April 2022 MTDfV has been mandated for all VAT-registered businesses. This means that even voluntarily registered businesses, trading below the compulsory VAT registration threshold (£90,000 with effect from 1 April 2024), must keep the requisite digital records and file digitally. If this affects you, and you would prefer to consider deregistering for VAT, we are happy to discuss this with you.

Since February 2024 HMRC have automatically enrolled all new VAT registrations into MTD, unless exemption from MTD has been specifically requested.

Those businesses that fall within the scope of MTDfV are required to submit their VAT returns using software compatible with the MTDfV regulations. Information will be extracted from the digital records in order to populate the VAT return.

The changes introduced as part of the MTDfV project do not affect the statutory VAT return deadlines or payment dates, and businesses that choose to submit VAT returns monthly or annually can continue to do so.

Using third party software and keeping digital records

HMRC does not provide MTDfV software, and manual record keeping is not acceptable. Businesses must keep specified records in 'functional compatible software', which calculates the VAT return and submits it to HMRC via an Application Programme Interface (API).

HMRC acknowledges there are different ways to do this. However, the transfer of data to HMRC, from the mandatory digital records to the filing of the return, must be entirely digital. HMRC has published VAT Notice 700/22: Making Tax Digital for VAT setting out requirements in more detail.

The VAT notice defines functional compatible software as a 'software programme or set of compatible software programmes which can connect to HMRC systems via an API' which must be capable of:

- keeping records in digital form as specified by the MTDfV rules

Nunn Hayward
Chartered Accountants

- preserving digital records in digital form for up to six years
- creating a VAT return from the digital records held in compatible software and submitting this data to HMRC digitally
- providing HMRC with VAT data on a voluntary basis
- receiving information from HMRC via the API platform.

Records to be kept digitally are specified in the VAT Notice. They include 'designatory data'; the VAT account linking primary records and VAT return; and information about supplies made and received including the different rates of VAT applicable. For supplies received, the amount of input tax to be claimed is also needed.

MTD is not completely paper-free, and it does not mean businesses are mandated to use digital invoices and receipts. However the actual recording of supplies made and received must be digital. Where invoices and receipts aren't held digitally, they should be kept in hard copy as usual for VAT purposes.

Software issues

The digital records required for MTD don't have to be held in one place or one programme. Businesses can keep digital records in a range of different compatible digital formats. The use of spreadsheets is allowed, in combination with add-on MTD software.

From 1 April 2021, where digital records are kept in more than one programme, or where add-on programmes are used, all programmes should be linked digitally. VAT Notice 700/22 defines these digital links.

Digital links

A digital link is a transfer or exchange of digital data between software programmes, products or applications. Where a set of software products is used, there must be digital links between them, and once data is entered into software, any further transfer or modification must be via digital link.

Manual data transfer is not allowed under MTD. An example would be noting details from invoices in one ledger, then using that handwritten information to manually update another part of the functional compatible software. Copying by hand or manual transposition of data between two or more pieces of software and 'cut and paste', or 'copy and paste' is not acceptable.

The VAT Notice outlines acceptable digital links, including:

- linked cells in spreadsheets
- emailing a spreadsheet with digital records to an agent for the agent to import data into software to make a calculation, such as a partial exemption calculation
- transferring digital records onto portable devices (pen drive, memory stick) and giving these to an agent
- XML, CSV import and export, download and upload of files
- automated data transfer
- API transfer.

How we can help

No matter if your business is big or small, MTD affects you. As your accountants, we can help you to stay compliant with the MTDfV rules.

For more information, please contact us.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Managing Absence

Recent surveys indicate that the adverse impact of absence on business profitability today is significant, with absence rates in 2021 at their highest levels since 2009.

. Recent statistics show that an average of 6.9 days are lost each year per employee with a median cost of £798 per employee.

We consider below the main principles of effective absence management.

Good absence management procedures

The majority of businesses surveyed (94%) confirm that tightening of policies to review attendance has a major influence on controlling levels of absence, particularly when three fifths of all absence is for minor illness of less than five days duration.

The difference between short and long-term absence

When managing sickness absence issues, employers need to distinguish between short-term and long-term absences. Where the absence consists of short but persistent and apparently unconnected absences then, after suitable investigation, disciplinary action may be appropriate. However, this is not a suitable course of action in relation to longer-term sickness absence management.

Short term absence procedures

There are a number of key steps in managing short-term absence.

- Establish a clear procedure that employees must follow, for example, the use of a return to work interview with line management and completion of self-certification forms even for one day of absence. This will ensure that everyone is aware that monitoring takes place and there is a complete record of absence.
- Establish a system of monitoring absence and regularly review this for emerging trends. Frequent absences could perhaps be evidence of malingering but on the other hand could be a symptom of a deeper problem. Tangible statistics can provide useful warning signals to prompt early action and avoid problems in the future.
- Return to work interviews should always be undertaken by the individual's immediate line manager, which will ensure that clear reasons for taking time off from work emerge. This will give managers the opportunity to get to the root cause of an absence which could be a symptom of a deeper problem.
- If the issues are personal and not work related, the employer should decide on the amount of flexibility he or she is prepared to give to enable the individual to address their issue.
- If there may be an underlying medical condition the employer should consider requesting a medical report to support the level of absence; there may be a hidden underlying condition and links to disability discrimination may not be immediately apparent.
- All employees should be made aware that any abuse of the sick pay provisions will result in disciplinary action.
- If there is no good medical reason for the absences the employee should be counselled and told what improvement is expected and warned of the consequences if no improvement is seen.
- If there are medical reasons for the absence, consider any links to the Equality Act 2010, for example, does the absence relate to hospital appointments or treatment required; if so, the employer is required to make reasonable adjustments which includes allowing time off for treatment.
- If the situation reaches a stage where the employee is to be dismissed and there is no defined medical condition, it may be on the grounds of misconduct. Here the employer must be able to show that a fair procedure has been followed taking into account the nature and length of the illness, past service record and any improvement in the attendance record.
- If the employee has a recognised medical condition that is not a disability but the absence rate is unacceptably high, it may be possible to dismiss fairly for some other substantial reason after following the due process. Again length of service and the availability of suitable alternative employment are relevant factors to consider before reaching a decision.

Long-term absence procedures

The key steps in managing long-term absence include:

- absence procedures, monitoring and return to work interviews are as important as in the case of short-term absence
- it is always prudent to gather medical advice to assess whether the employee's condition amounts to a disability and also the capability of the employee to undertake their role going forward
- it is important to be specific about the information required from the medical report for example the nature of the illness, the ability of the individual to undertake their role, having provided a detailed description of responsibilities, the length of time the illness is likely to last, and any reasonable adjustments that would ease the situation
- upon receipt of the medical evidence a process of consultation and discussion should take place with the individual (welfare visit) subject to any recommendation of the doctor
- it is important to listen to the employee's proposals for their return to work
- if the cause of the illness is work related, the root cause should be investigated. Employers should discuss ways to reduce the influencing factors, for example, increased support, training or reallocation of duties. Could the employee return to work on a staged basis or on a part time basis for a short period?
- ensure all steps are recorded in writing to confirm what is expected of the employee and also what steps the employer is going to take, so there is no confusion and all actions taken are seen to be reasonable
- if the employee is to be dismissed it is likely to be on the basis of capability, however care will be needed to ensure all the requirements of the Equality Act 2010 have been considered and to demonstrate that a fair procedure has taken place.

Definition of disability

The definition of what constitutes a disability can be split into three parts:

- the employee must be suffering from a physical or mental impairment
- the impairment must have a substantial effect on the ability to carry out normal day-to-day activities, which would include things like using a telephone, reading a book or using public transport. Substantial means more than minor or trivial
- the effect must be long-term, in other words have already lasted for at least 12 months or be likely to last that long.

The Equality Act 2010 includes new protection from discrimination arising from disability. This includes indirect discrimination, associative discrimination and discrimination by perception.

Discrimination arising from disability

A person discriminates against a disabled person if:

- a person treats a disabled person unfavourably because of something arising in consequence of the disabled person's disability, and
- a person cannot show that the treatment is a proportionate means of achieving a legitimate aim.

However, this does not apply if a person shows that they did not know, and could not reasonably have been expected to know, that a disabled person had the disability.

Reasonable adjustments

If a medical report identifies a disability, in accordance with the Equality Act, an employer has a duty to make reasonable adjustments. This is quite broad and may mean physical adjustments to premises or the provision of equipment to assist the employee in carrying out their duties. It can also mean adjustments to the role itself by removing certain duties and reallocating them, changes in hours or place of work, or the provision of further training and supervision. It may also include transferring to any other vacant post subject to suitability.

In other words quite a number of steps are required of an employer if they are to establish a fair dismissal for capability in relation to an employee who has been absent for a long term of sickness.

How we can help

Please contact us if we can provide any further assistance or additional information.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Micro Entity Accounting

Nunn Hayward
Chartered Accountants

Small companies, which qualify as 'micro-entities', have a choice of accounting standards:

- to use the same accounting standard – FRS 102 – as larger UK companies but using a reduced disclosure regime (section 1A) within the standard, or
- to apply an alternative standard - FRS 105.

FRS 102 introduced some significant accounting challenges including more widespread use of 'fair value' accounting so there may be a temptation to use FRS 105 as fair value accounting must not be applied. However this may not always be the best choice for the company.

Qualifying as a micro-entity

The government has announced its intention to uplift the company size thresholds and we are awaiting legislation which is expected at the end of 2024.

The main criterion is currently based on the following size limits. Currently, the company has to meet two out of three size limits, for two consecutive years:

- turnover of £632,000 or lower,
- total assets of £316,000 or lower and
- 10 or fewer employees (averaged throughout the year).

However, for periods commencing on or after 6 April 2025, the turnover and balance sheet thresholds increase to £1m and £500k respectively (requirements in relation to the average number of employees remain the same).

Certain financial services firms, such as credit institutions and insurers, and also charities, are excluded from qualifying and there are special rules if the company is part of a group.

Simplified accounts

Accounts prepared under FRS 105 need consist of only a simplified Profit & Loss Account , a Balance Sheet and four notes to the balance sheet. Currently, the accounts filed with the registrar at Companies House need not include a profit and loss account - however, this is expected to change as part of Accounts Reform under the Economic Crime and Corporate Transparency Act. The exact timeline on this is not clear but it is anticipated that this will change over the next couple of years.

Company law presumes that micro-entity accounts prepared as above are assumed to give a true and fair view. This means that the company is not required to add any further disclosure. If instead the company opts for the reduced disclosure regime under FRS 102, there may be a need for extra disclosure to ensure that the accounts give a true and fair view.

Simpler accounting

FRS 105 imposes simpler accounting treatment compared to FRS 102. There are numerous differences between FRSs 102 and 105 but the three most significant are likely to be:

Revaluation / fair value of assets

This is not permitted under FRS 105. By contrast, FRS 102 permits (and in some cases requires) some assets to be measured at fair value annually.

Avoiding the need to obtain regular fair values may prove more convenient and less costly for the business. However, if the company is currently revaluing properties and has significant loans and other debts against these properties, using FRS 105 would mean re-measuring the properties at 'depreciated cost', which could reduce the balance sheet value considerably.

Fewer intangible assets

Under FRS 105, fewer intangible assets are recognised than under FRS 102. For instance, if the company were to acquire a business, the purchase price will be divided between tangible assets and liabilities and goodwill – the company would not need to identify separate individual intangible assets such as customer lists and brand names. It also means, however, that internally-generated intangibles such as development costs cannot be treated as assets; instead, such costs must be expensed through profits as incurred.

No more deferred tax

FRS 105 does not allow companies to recognise deferred tax. By contrast, FRS 102 includes deferred tax more frequently than before.

Other things to consider

The relatively brief information presented within micro-entity accounts means that less financial detail is available to the public (via the filed accounts at Companies House). Directors may find this an advantage; however, it remains to be seen whether this lack of information could damage the company's credit-rating. The shareholders of the company will also receive less information in their members' accounts.

Directors can provide more information in the accounts than the statutory minimum, should they prefer to do so. We will be happy to supplement the minimum statutory information with extra analysis so that directors have enough financial detail to make informed decisions in running the business.

We want to ensure that directors are prepared and informed about the accounting choices for the company, which include (but are not limited to) the issues we have covered above. Please do get in touch.

How we can help

We can help you to find an appropriate source of grant funds and also assist with your business plan and detailed application. Contact us to find out more.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Money Laundering - High Value Dealers

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (as amended) (the Regulations) apply to a number of different businesses which include (amongst others) accountants and auditors, tax advisers and dealers in high value goods. The Regulations contain detailed procedural anti-money laundering requirements for those affected.

HMRC have been given the responsibility for supervising High Value Dealers. We outline below the main requirements of the Regulations and the registration process.

Which businesses are affected?

Businesses that meet the definition of a High Value Dealer (HVD) are affected by the Regulations.

A business is defined as a HVD where it deals in goods and accepts or makes cash payments equivalent to €10,000 or more in any currency, including where a customer deposits cash directly into the HVD's bank account or when they pay cash to a third party for the benefit of the HVD. This applies whether the transaction is executed as a single transaction or in several instalments which are linked.

Businesses that only occasionally accept or make such transactions are included. Businesses that do not accept large amounts of cash or deal in services are not affected.

Generally the businesses most affected will be those that deal in high value or luxury goods, works of art, cars, jewellery and yachts.

However, the regime applies to everyone who accepts sufficiently large amounts of cash for goods and any business could potentially be registrable.

If a HVD does not intend to accept high value payments it should have a written policy to this effect and ensure that employees and customers are aware of this policy.

Art market participants

An art market participant is a person who by way of business trades in, or acts as an intermediary in the purchase or sale of art with a value exceeding €10,000. An art market participant is required to register with HMRC regardless of how such payments are made or accepted; that is, the requirement to register is not restricted to those who make or accept cash payments. Registration as an art market participant is also with HMRC.

How is my business affected?

If your business does deal in goods and does accept or make large cash payments then you are required to:

- put anti money laundering systems in place so that you can identify and prevent money laundering and report any suspicious transactions (see below)
- register with HMRC
- pay an annual fee based on the number of premises through which you trade. There is also an application charge for new registrations
- report any changes through the registration year.

If you are unsure whether you will sell goods for this amount and do not register, you will be obliged to refuse any payments or refunds in cash equivalent to €10,000 (or more) or insist upon payment by another means, such as cheque, credit or debit card.

Background to the requirements

Why was this regime introduced?

The aim of the regime is to help protect society and to combat money laundering and the criminal activity which underlies it, including terrorism.

As money launderers have resorted to more sophisticated ways of disguising the source of their funds, new legislation and regulation aimed at catching those involved became necessary.

The primary legislation is predominantly contained within the Proceeds of Crime Act 2002 and the Terrorism Act 2000 as amended by the Terrorism Act 2006 and subsequently the Counter-Terrorism Act 2008.

The 2017 Regulations (as amended) implement the EU Fourth and Fifth Money Laundering Directives which aim to further improve and tighten the regime to tackle money laundering and terrorist financing. Brexit has not affected the application of these regulations.

What is money laundering?

Money laundering is the process by which criminally obtained money or other assets (criminal property) are exchanged for 'clean' money or other assets with no obvious link to their criminal origins.

Criminal property

Criminal property represents the proceeds of criminal conduct. This includes any conduct wherever it takes place, which would constitute a criminal offence if committed in the UK. It not only includes, for example, drug trafficking, tax evasion, fraud, forgery and theft but also any other criminal offence committed for profit.

It is important therefore to remember that money laundering includes the proceeds of any crime and not simply the more traditionally associated crimes such as drug trafficking and prostitution.

Under the legislation there are three principal money laundering offences covering criminal activity and two related money laundering offences:

- concealing, disguising, converting, transferring or removing (from the United Kingdom) criminal property
- making arrangements which facilitate the acquisition, retention, use or control of criminal property by or on behalf of another person
- acquiring, using or possessing criminal property
- failure to disclose knowing or suspecting or having reasonable grounds for knowing or suspecting that another person is engaged in money laundering or terrorist funding
- revealing that a disclosure of suspicion of money laundering has been made or that an investigation into money laundering offences is being carried out, or considered, where this is likely to prejudice an investigation. This is known as 'tipping off'.

HVDs must be aware of how these actions could affect their business, for example, as the proceeds of crime are spent (or laundered) within their business.

The importance of the regime

The law imposes very severe penalties on anyone involved in money laundering. The Regulations require HVDs to adopt anti money laundering procedures to protect themselves against abuse by money launderers and the risk of prosecution.

The registration process

HVDs register with HMRC using their online service. If you already have a Government Gateway account you will use this User ID and password to sign in, but otherwise you can register for an account as part of this process.

HMRC will review your application, but this can take up to 45 days. Remember that you cannot accept or make any cash payments over €10,000 until you are registered. You will receive an email when a decision has been made on your application, but you will need to sign into your account to see that decision.

Registration is required where a business:

- accepts or makes payments equivalent of €10,000 or more in cash for a single transaction or in instalments which are linked or
- takes a policy decision to carry out such transactions.

Every legal entity through which a HVD business is run must be registered. An initial fee of £300 is payable for registration for each of the premises listed on the application. Annual renewals of £300 per premise apply. The 2017 Regulations require approval tests of 'key personnel' to check for relevant criminal convictions. This is a non-refundable charge of £40 per person.

Businesses that fail to register could be liable to a civil penalty if they carry out a HVD transaction.

What anti money laundering policies and procedures are required?

Your business should establish, review and maintain policies and procedures relating to:

- customer due diligence
- risk assessment and management
- the monitoring and management of compliance
- reporting

- record keeping
- internal control
- the internal communication of these policies and procedures.

Customer due diligence (CDD)

HVDs must establish the identity of any customer who makes or is refunded a total cash payment equivalent to €10,000 or more for a single transaction or linked transactions.

Establishing identity requires you to be satisfied that your customer is who they claim to be by obtaining evidence of their name, address and date of birth. For further information on CDD procedures please refer to the Money Laundering and Proceeds of Crime factsheet.

Risk assessment

The HVD must carry out a risk assessment to identify and assess the risks of money laundering and terrorist financing to which the business is subject. You must write this down, together with any underlying information that you used to make that assessment (for instance the countries in which you operate, the goods you sell, the nature of your customers etc).

Appoint an individual as the officer responsible for compliance

The Regulations require, where it is appropriate to the size and nature of your business, a member of the board (or equivalent), or senior management, to be the officer responsible for compliance with the Regulations. HMRC, as your supervisory body, must be informed of the identity of this individual when first appointed and any subsequent changes.

Appoint a Money Laundering Nominated Officer (MLNO)

This is a very important role within a HVD business and should be performed by a suitably senior person. This person can also be the person who is the officer responsible for compliance with the Regulations and again HMRC must be informed of their identity.

The main roles of the MLNO should be to:

- establish the necessary procedures to implement the requirements of the Regulations
- receive and review reports of possible money laundering from others involved in the business
- decide whether to report to the National Crime Agency (NCA).

Establish an independent audit function to assess compliance

HVDs should ensure they check that their policies are appropriate and are being properly implemented. Where necessary changes should be made to ensure everything is working properly. Larger organisations will be expected to achieve this by establishing an independent audit function, but smaller businesses might do this with perhaps an annual internal or external check of their procedures.

Screen relevant employees

When hiring new staff who will be involved in any aspect of compliance with the Regulations (eg taking large cash payments) the HVD must screen them to ensure they have the appropriate knowledge and skills for the job and to assess their conduct and integrity.

NCA

The NCA is the government body to which all suspicions of money laundering should be reported via the NCA website.

There will be times when an internal report of suspected money laundering is received by the MLNO, where the transaction is not yet complete. Under these circumstances there are specific NCA procedures to follow and you must wait until the NCA gives consent for the transaction to go ahead.

Training your staff

All customer facing staff in the business must be trained to be aware of:

- the law regarding money laundering offences and terrorist financing
- how to recognise and deal with suspicious transactions.

Staff should be trained regularly on this subject and training should be repeated to ensure that staff knowledge is maintained and they are competent to apply CDD procedures. The ongoing training should ensure that staff are aware of changing money laundering practices.

Managing the risk

HVDs should:

- have a system in place to record all transactions of €10,000 or more on their accounting system and make them identifiable
- have policies and procedures in place concerning the acceptance of these large transactions.

Record keeping

The records that must be kept are:

- a copy of, or the references to, the evidence of the customer's identity obtained under the CDD procedures
- the supporting evidence and records in respect of the business relationships and occasional transactions which are the subject of CDD measures or ongoing monitoring.

In relation to the evidence of a customer's identity, businesses must keep the following records:

- a copy of the identification documents accepted and verification evidence obtained, or
- references to the evidence of a customer's identity.

How long must the records be retained for?

- Evidence of a customer's identity must be kept for 5 years beginning on the date on which the occasional transaction is completed or the business relationship ends.
- Records of transactions must be kept for 5 years beginning on the date on which the transaction is completed.
- All other records must be kept for 5 years beginning on the date on which the business relationship ends.

You must be able to rapidly respond to a query from the police or other appropriate investigator regarding a customer or past customer.

Failure to comply

Businesses may be liable to a civil penalty for failing to comply with a registration requirement. There is no upper limit on the amount of the penalty. Penalties will be for an amount that is considered appropriate for the purposes of being effective, proportionate and dissuasive.

Failing to comply with responsibilities under the Regulations could lead to either prosecution or a civil penalty. Conviction under the Regulations can incur up to two years imprisonment and / or an unlimited fine.

How we can help

If you would like to discuss any of the issues raised above please do contact us. We are able to provide comprehensive assistance with regulation and HMRC matters such as:

- HVD registration
- design and implementation of anti money laundering policies and procedures
- VAT registration and deregistration
- completion of VAT returns.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Money Laundering and the Proceeds of Crime

01753 888211 | info@nhllp.com | www.nhllp.com

There are tough rules to crack down on money laundering and the proceeds of crime. These rules affect a wide range of people and we consider how your organisation may be affected.

Money laundering - a definition

Most of us imagine money launderers to be criminals involved in drug trafficking or terrorism or to be someone like Al Capone. However, legislation in the last two decades has expanded significantly the definition of what we might have traditionally considered as money laundering. While the general principles remain; money laundering involves turning the proceeds of crime into apparently 'innocent' funds with no obvious link to their criminal origins, what should be remembered is that the definition includes the proceeds of any criminal offence, regardless of the amount involved.

The rules

The key pieces of legislation are:

- the Proceeds of Crime Act 2002 (The Act) as amended by the Serious Organised Crime and Police Act 2005, and
- the Money Laundering,Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 as amended (The 2017 Regulations as amended).

The Act

When first issued the Act re-defined money laundering and the money laundering offences, to cover the proceeds of any crime (not just serious crime) and created mechanisms for investigating and recovering the proceeds of crime. The Act also revised and consolidated the requirement for those affected to report knowledge, suspicion or reasonable grounds to suspect money laundering. See the panel below for some of the more technical terms of the Act.

The 2017 Regulations (as amended)

The 2017 Regulations originally came into effect on 26 June 2017 and replaced the 2007 Regulations. They have subsequently been amended a number of times, most recently as a result of Brexit. The Regulations contain the detailed procedural requirements for those affected by the legislation, but have been updated in some areas, including beneficial owners and high risk third countries, compared to the previous version.

Proceeds of Crime Act - technical terms

Under the Act, someone is engaged in money laundering if they:

- conceal, disguise, convert, transfer or remove (from the United Kingdom) criminal property
- enter into, or become concerned in, an arrangement which they know or suspect facilitates (by whatever means) the acquisition, retention, use or control of criminal property by or on behalf of another person or
- acquire, use or have possession of criminal property.

Property is criminal property if it:

- constitutes a person's benefit in whole or in part (including pecuniary and proprietary benefit) from criminal conduct or
- represents such a benefit directly or indirectly, in whole or in part and
- the alleged offender knows or suspects that it constitutes or represents such a benefit.

Who is caught by the legislation?

The regulated sector

The legislation relates to anyone in what is termed as the 'regulated sector', which includes but is not limited to:

- credit institutions
- financial institutions
- cryptoasset exchange and or custodian wallet providers
- auditors, insolvency practitioners, external accountants and tax advisers
- independent legal professionals
- trust or company service providers
- estate agents and letting agents

- high value dealers
- art market participants
- casinos.

The implications of being in the regulated sector

Those businesses that fall within the definition are required to establish procedures to:

- identify and assess the risks of money laundering and terrorist financing to which they are subject and manage that risk
- apply customer due diligence procedures (see below)
- keep appropriate records
- appoint a Money Laundering Nominated Officer (MLNO) to whom money laundering reports must be made
- appoint a member of the board or senior management as the officer responsible for compliance with the Regulations (this may be the same person as the MLNO)
- establish systems and procedures to forestall and prevent money laundering
- monitor and manage compliance with, and communication of, the policies and procedures and
- provide relevant individuals with training on money laundering and awareness of their procedures in relation to money laundering.

If your business is caught by the definition you may have received guidance from your professional or trade body on how the requirements affect you and your business. Those of you who are classified as High Value Dealers may be interested in our factsheet of the same name, which considers how the 2017 Regulations (as amended) affect those who make or receive high value cash payments.

The implications for customers of those in the regulated sector

As you can see from the list above, quite a wide range of professionals and other businesses are affected by the legislation. Those affected must comply with the laws or face the prospect of criminal liability (both fines and possible imprisonment) where they do not.

Customer Due Diligence (CDD)

Under The Regulations, if you operate in the regulated sector, you are required to undertake CDD procedures on your customers. These CDD procedures need to be undertaken for both new and existing customers.

CDD procedures involve:

- identifying your customer and verifying their identity. This is based on documents or information obtained from reliable sources independent of the customer
- identifying where there is a beneficial owner who is not the customer. It is necessary for you to take reasonable measures on a risk sensitive basis, to verify the beneficial owner's identity, so that you are satisfied that you know who the beneficial owner is. The objective here is to confirm who the beneficial owners are, so for example obtaining evidence that corroborates the entries in the PSC register (people with significant control – see separate factsheet which includes details of the requirement to report discrepancies in the PSC register) and not simply checking the ID of the persons listed. The beneficial owners of the business are those individuals who ultimately own or control the business or who benefit from the transaction.
- obtaining information on the customer's circumstances and business, including the intended nature of the business relationship.

You must apply CDD when you:

- establish a business relationship (this now includes forming a company for the customer)
- carry out an occasional transaction that amounts to a transfer of funds exceeding €1,000
- carry out an occasional transaction outside a business relationship (for example a one off transaction valued at €15,000 or more) where not a casino or high value dealer
- carry out a cash transaction of €10,000 or more if a high value dealer
- by way of business let a property for a month or more at a monthly rent exceeding €10,000
- by way of business trade in, or act as an intermediary in the purchase or sale of art with a value exceeding €10,000
- carry out certain gambling transactions of €2,000 or more if a casino

- suspect money laundering or terrorist financing
- doubt the reliability or adequacy of documents or information previously obtained for identification.

CDD measures must also be applied on a risk sensitive basis at other times to existing customers. This could include when a customer requires a different service, or where there is a change in the customer's circumstances. Businesses must consider why the customer requires the service, the identities of any other parties involved and any potential for money laundering or terrorist financing.

The purpose of the CDD is to confirm the identity of the customer. For the customer's identity to be confirmed, independent and reliable information is required. Documents which give the strongest evidence are those issued by a government department or agency or a Court, including documents filed at Companies House. For individuals, documents from highly rated sources that contain photo identification, eg passports and photo driving licences, as well as written details, are a particularly strong source of verification. The 2017 Regulations (as amended) now explicitly state that electronic verification may be regarded as a reliable source of evidence.

The law requires the records obtained during the CDD to be maintained for five years after a customer relationship has ended. It also requires customers to be notified about how their personal data will be processed and who the data controller is (being the name of the entity/person registered under Data Protection rules).

Enhanced Due Diligence (EDD)

EDD and ongoing monitoring must be applied where:

- the risk of money laundering or terrorist financing is assessed as high
- the customer or a party to a transaction in which they are involved is established in a high-risk third country
- the client is a politically exposed person or a family member/ known close associate of one (this now includes UK PEPs)
- false or stolen identification documents or information have been provided and there is still an intention to act for the customer
- a transaction is complex or unusually large or has an unusual pattern or there is no apparent legal or economic purpose
- by its nature there is a higher risk of money laundering or terrorist financing
- there is a 'correspondent relationship' with another credit or financial institution.

Additional procedures are required over and above those applied for normal due diligence in these circumstances.

The above list was changed in the 2017 Regulations (as amended) to define more clearly what is meant by established in a high risk third country and to extend the scope to include any other parties to a transaction. The wording in respect of transactions that trigger EDD was also amended to refer to complex or unusually large rather than complex and unusually large, and similarly unusual pattern and no apparent legal purpose was changed to or. In addition, with the increased use of internet or other remote transactions the requirement to apply EDD where not meeting the customer face to face has been removed provided electronic verification of identity is undertaken successfully.

Reporting

As mentioned above, the definition of money laundering includes the proceeds of any crime. Those in the regulated sector are required to report knowledge or suspicion (or where they have reasonable grounds for knowing or suspecting) that a person is engaged in money laundering, ie has committed a criminal offence and has benefited from the proceeds of that crime. These reports should be made in accordance with agreed internal procedures, firstly to the MLNO, who must decide whether or not to pass the report on to the National Crime Agency (NCA).

The defences for the MLNO are:

- reasonable excuse (reasons such as duress and threats to safety might be accepted although there is little case law in this area)
- they followed Treasury approved guidance.

The Courts must take such guidance into account.

National Crime Agency (NCA)

The NCA is the UK crime-fighting agency with national and international reach and the mandate and powers to work in partnership with other law enforcement organisations to bring the full weight of the law to bear in cutting serious and organised crime. Part of the role of the NCA is to analyse the suspicious activity reports (SARs) received from those in the regulated sector and to then disseminate this information to the relevant law enforcement agency.

The Regulations require those in the regulated sector to report all suspicions of money laundering to the NCA. By acting as a coordinating body, the NCA collates information from a number of different sources. This could potentially build up a picture of the criminal activities of a particular individual, which only become apparent when looked at as a whole. This information can then be passed on to the relevant authorities to take action. More detail on the activities of the NCA can be found on their website www.nationalcrimeagency.gov.uk/ .

Is your business vulnerable?

Criminals are constantly searching for new contacts to help them with their money laundering or terrorist financing. Certain types of business are more vulnerable than others. For example, any business that uses or receives significant amounts of cash can be particularly attractive. To counter this, the Regulations require businesses that deal in goods and accept cash equivalent to €10,000 or more to register with HMRC and implement anti-money laundering procedures. Such businesses are known as High Value Dealers (HVD).

You can imagine that if a drug dealer went along to a bank on Monday morning and tried to pay in the weekend's takings, the bank would notice it and report it unless the sum was relatively small. If criminals can find a legitimate business to help them by taking the cash and pretending that it is the business's money being paid in (in exchange for a proportion!), then that business can put the cash into the bank without any questions being asked.

Take, for example, the mobile telephone business that has had a fairly steady turnover of £10,000 per week for the last couple of years but suddenly begins to bank £100,000 in cash each week. Without a clear, rational and plausible explanation, this type of suspicious activity would clearly be reported to the NCA.

Perhaps a less obvious example of possible money laundering could be where an individual comes into an antiques shop and offers to buy a piece of furniture for £12,000 in cash. Not too many sellers would have insisted upon a cheque in the past! Now the HVD will need to consider the risk of money laundering and as a minimum carry out customer due diligence before accepting such a cash amount. This person may be a money launderer who then goes to another shop and sells the antique for say £8,000, being quite prepared to suffer the apparent loss. This time the criminal asks for a cheque that can then be paid innocently into a bank account, making the money look legitimate.

The legislation aims to put a stop to this type of activity. Those in the regulated sector are required to report any transactions that they have suspicions about. Also, it is not simply the more obvious examples of suspicious activities that have to be reported. For the majority of those regulated, the government has insisted upon there being no de minimis limits within the legislation. This means that very small proceeds of crime have to be reported to the NCA.

Tipping off

There is also an offence known as 'tipping off' under the Act. This is what would happen if a person in the regulated sector were to reveal that a suspicious activity report had been made, say for example about a customer, to that customer. Where this disclosure would be likely to prejudice any investigation by the authorities, an offence may be committed. A tipping off offence may also be committed where a person in the regulated sector discloses that an investigation into allegations that a money laundering offence has been committed is being contemplated or carried out, and again, that this disclosure would be likely to prejudice that investigation. As you can imagine therefore, if you were to ask an accountant or estate agent whether they had made any reports about you, they would not be able to discuss this with you at all. If they did, they could break the law and could face a fine or imprisonment, or both.

How we can help

The legislation brings a number of professions and businesses into the regulated sector. Complying with the requirements of both the Act and the 2017 Regulations (as amended) requires those affected to introduce a number of procedures to ensure that they meet their legal responsibilities. If you would like to discuss how the legislation could affect you and your organisation please do contact us.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Narrative Reporting

It has long been established that a set of company accounts should be accompanied by a directors' report that provides additional information about the company that may be of interest to its shareholders.

In recent years there has been a series of developments that have increased the amount of information that companies have had to include as part of their annual report. These narrative reporting obligations provide an opportunity for management to aid users of the financial statements in their understanding of the company, its activities and performance.

This will not be achieved by including standard or 'boilerplate' wording that solely aims to ensure that the legal requirements have been met. Rather directors need to carefully consider what they disclose to not just meet their regulatory obligations, but also to provide narrative that is useful and meets the needs of the users of the financial statements, which increasingly can represent a wide range of the company's stakeholders and not just its shareholders.

This factsheet aims to provide a clear explanation of the narrative reporting requirements faced by private companies.

Company size

The key to understanding your company's requirements is to first ascertain its size. The narrative reporting requirements become more onerous as a company increases in size.

The size limits relating to periods commencing prior to 6 April 2025 are as follows:

	Micro	Small	Medium
Turnover	£632,000	£10.2m	£36m
Total assets	£316,000	£5.1m	£18m
Employees	10	50	250

For periods commencing on or after 6 April 2025, some of these limits will increase, per the below:

	Micro	Small	Medium
Turnover	£1m	£15m	£54m
Total assets	£500,000	£7.5m	£27m
Employees	10	50	250

A company needs to meet two out of three of the above criteria for two consecutive years to qualify as a micro, small or medium-sized company, unless it is the first year of the company's existence, in which case only that year has to be considered. The turnover limit is adjusted if the financial year is longer or shorter than twelve months.

There are certain exclusions from the above size limits which are set out in the Companies Act 2006. In addition special rules apply to parent undertakings which need to be taken into account.

Micro-entities

Companies that meet the micro-entity size criteria, and have opted to prepare their annual report in accordance with the micro-entity provisions, have no narrative reporting requirements due to the simplified arrangements that exist for such companies.

In practice many companies, despite meeting the size criteria, find the reporting requirements for micro-entities inappropriate for their needs, and voluntarily choose to prepare their annual report using the small-entity provisions instead. In such circumstances they will be subject to the narrative reporting requirements applicable to small entities.

Small entities

Companies that are able to and choose to adopt the small-entity reporting provisions are required to include a directors' report as part of their annual report that is distributed to the company's members. Note though that the directors' report does not need to be included as part of the annual report that is filed at Companies

House: it (and the profit and loss account) can currently be removed from the annual report in a process commonly known as filleting.

The directors' report of a small company is required to include the following:

- The names of all the directors who held office at any time during the financial year. It is also common practice to include details of any changes to the board that have arisen since the year end.
- Whether any qualifying third party indemnity provision is in force at the time of the approval of the report or during the period, for the benefit of one or more directors.
- Unless the company is a wholly-owned subsidiary undertaking of a UK parent company, details of any political donations made or similar expenditure where the total amount incurred exceeds £2,000. In addition the total contributions paid to non-UK political parties should be disclosed.
- Where the average number of employees exceeds 250, the company's policy for the employment of disabled persons.

Although not required, many small companies will also provide a brief description of the company's trading activity.

A statement that advantage has been taken of the small companies exemptions in preparing the directors' report is also required, which is presented immediately above the signature of the director or secretary who is signing the report on behalf of the board.

Medium and large size entities

Both medium and large size entities have considerably more onerous narrative reporting requirements when compared to small entities, and there is no exemption available to them when filing their annual report with Companies House.

The most significant difference is the need to incorporate a strategic report as part of the annual report. There are also additional requirements for the directors' report that will need to be addressed.

The reporting requirements are in the process of being enhanced, with additional disclosures being introduced. Before these are considered though let's examine the existing narrative reporting requirements.

Strategic report

For a private limited company the strategic report should contain the following:

- A fair review of the company's business. This should include a balanced and comprehensive analysis of the company's development and performance during the year and its financial position at the end of it. It may be necessary for the review of the business to include references to or provide additional explanation to amounts included in the accounts themselves.
- A description of the principal risks and uncertainties faced by the company.
- An analysis of the key performance indicators (KPIs) used by management to assess the company's performance. For medium-sized companies this is restricted to financial KPIs, but large companies are required to include non-financial KPIs such as those related to employee or environmental matters.

For parent companies preparing consolidated accounts the strategic report is required to consider the group's performance and not just that of the company itself.

Directors' report

A medium or large company is required to include in its directors' report all of the matters that a small company has to include, but also has the following additional requirements:

- The dividend recommended by the directors.
- An indication of the company's financial risk management objectives and policies and the exposure to price, credit, liquidity and cash flow risk when considered material to the assessment of the company's assets, liabilities, financial position and profit or loss.
- Important events that have occurred since the year end.
- Likely future developments in the company's business.
- Research and development activities.
- An indication of the existence of any branches of the company outside the UK.
- Where the average number of employees exceeds 250, a statement describing the action taken during the year to introduce, maintain or develop arrangements aimed at

informing and consulting with employees, including any how employee involvement is encouraged through share incentive schemes or similar arrangements.

Often it will make sense for the company to present information required to be included within the directors' report as part of the strategic report. This is permitted, provided that there is a clear cross reference to the disclosures that have been included as part of the strategic report within the directors' report.

Also required to be included is a statement of how the directors have complied with their duty to have regard to the matters set out in section 172 (1)(a)-(f) of the Companies Act 2006. This refers to the requirement that a director of a company must act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- The likely consequences of any decision in the long term
- The interests of the company's employees.
- The need to foster the company's business relationships with suppliers, customers and others.
- The impact of the company's operations on the community and the environment.
- The desirability of the company maintaining a reputation for high standards of business conduct.
- The need to act fairly as between members of the company.

This disclosure will need to reflect the issues, factors and stakeholders the directors consider relevant to their decision making, the main methods used to engage with stakeholders and understand the issues to which they must have regard, and information on the effect of that regard on the company's decisions and strategies during the financial year.

Note that this statement will also need to be published on the company's website.

The regulations also have the following implications for the directors' report:

- Where the average number of employees in the UK exceeds 250 a summary of how the directors have engaged with employees and had regard to employee interests, including the effect of this engagement on the principal decisions taken during the year. This builds upon the existing requirement to disclose details of employee involvement.
- Large companies are required to summarise how the directors have fostered engagement with suppliers, customers and others in a business relationship with the company, again including the effect of this on the company's principal decisions.
- The need to include a statement giving certain details about the corporate governance arrangements applied by the company. This only applies to companies with either more than 2,000 employees globally or which have turnover in excess of £200 million and total assets over £2 billion.

Companies subject to audit

Most small companies will be able to take advantage of audit exemption, but medium and large companies will be subject to the requirement to have their accounts audited. For those companies that are required to have their accounts audited, or choose to do so voluntarily, there are two additional requirements:

- A statement concerning the directors' responsibility for the preparation for the financial statements.
- A statement that all directors at the time of the approval of the report are not aware of any relevant audit information that the company's auditor is unaware of, and that appropriate steps have been taken to establish this.

These statements are often included as part of the directors' report. The statement of the directors' responsibility for the preparation of the financial statements can be presented separately if desired.

Environmental reporting requirements

As part of the need to address climate change and encourage companies to consider their responsibilities towards the environment, companies are required to include disclosures in their directors' report on environmental matters.

For low energy users, that is a large company which has consumed 40MWh or less of energy in the UK (including offshore areas), the directors' report merely needs to state that energy and carbon information is not being disclosed as it is a low energy user. In assessing whether the 40MWh threshold is met large companies must consider all the energy from gas, electricity and transport fuel usage. For parent companies the energy consumption of the parent and its subsidiaries must not exceed 40MWh if it is to qualify as a low energy user.

Large companies that do not qualify as low energy users will need to disclose the following:

- The UK annual quantity of emissions in tonnes of carbon dioxide equivalent from activities for which the company is responsible involving combustion of gas or consumption of fuel for the purposes of transport.
- The UK annual quantity of emissions in tonnes of carbon dioxide equivalent resulting from the purchase of electricity for its own use, including for the purposes of transport.
- The aggregated figure in kWh of the UK annual quantity of energy consumed from activities for which it is responsible involving combustion of gas or fuel for the purposes of transport, and the purchase of electricity for its own use, including for the purposes of transport.
- The methodology used to calculate its energy consumption and emission levels.
- At least one ratio that expresses the company's annual emissions in relation to a quantifiable factor associated with the company's activities.
- If the company has taken any measures for the purpose of increasing the company's energy efficiency, a description of the principal measures taken.
- Where it is impractical to obtain all or some of the emissions or energy consumption data requiring disclosure, what information is not included and why.

Although this new requirement only applies to large companies (and limited liability partnerships (LLPs)) other entities are encouraged to consider whether it would be helpful to the users of their financial statements to also make these disclosures. For LLPs, the disclosures are presented in an 'Energy and Carbon Report'.

Clearly these disclosure requirements are going to prove challenging to many companies. The Government had produced detailed guidance to assist companies meet their obligations which is available online using the following link:

https://www.gov.uk/government/publications/environmental-reporting-guidelines-including-mandatory-greenhouse-gas-emissions-reporting-guidance

How we can help

We will be very pleased to discuss the impact on your company of the narrative reporting requirements outlined above. If you would like to discuss these issues in more detail, please contact us.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
National Insurance

National insurance contributions (NIC) are payable by employed earners and their employers as well as self-employed earners. It is also possible to make voluntary contributions. Payment of NIC qualifies the payee to receive contributory state benefits, such as the state retirement pension or jobseeker's allowance.

National insurance is often overlooked yet it is the largest source of government revenue after income tax. We highlight below the areas you need to consider and identify some of the potential problems. Please contact us for further specific advice.

Employed individuals - Class 1 NICs

Employees between 16 and state pension age are liable to pay Class 1 primary NICs on their earnings. For 2025/26 employee contributions are only due when earnings exceed a 'primary threshold' of £242 per week (£12,570 per annum). The amount payable is 8% of the earnings above £242 per week up to earnings of £967 per week (£50,270 per annum), known as the Upper Earnings Limit (UEL). In addition, there is a further 2% charge on weekly earnings above the UEL.

A further contribution is due from the employer known as Class 1 secondary. Secondary contributions are due from the employer of 15% of earnings above the 'secondary threshold' of £96 per week for 2025/26 (£5,000 per annum). There is no upper limit on the employer's payments.

Employer NICs for the under 21s and apprentices under 25

The rate of employer NICs for those under the age of 21 and apprentices under 25 is 0% for earnings up to the Upper Secondary Threshold (UST) in a pay period. Employer NICs at 15% will be due on earnings above the UST. The UST is set at the same amount as the UEL, which is the threshold at which employees' NICs fall from 8% to 2%. The UST is £967 for 2025/26 (£50,270 per annum).

Employer NICs for Veterans

Civilian employers of qualifying veterans are to be given relief from employer NICs up to the level of the UST for the first year of civilian employment. A person qualifies as a veteran if they have served at least one day in the regular armed forces. This includes anyone who has completed at least one day of basic training. This measure applies until 5 April 2026.

Employment Allowance

The Employment Allowance is available to many employers and can be offset against their employer Class 1 NICs liability. The amount of the Employment Allowance is a maximum of £10,500 for 2025/26. The allowance is limited to the employer Class 1 NICs liability if that is less than the Employment Allowance.

Companies, where the director is the sole employee earning above the secondary threshold, are unable to claim the Employment Allowance. Previously the Employment Allowance was also restricted to those employers whose employers' NIC bill was below £100,000 in the previous tax year. From 6 April 2025 this threshold will be removed.

The allowance is claimed as part of the normal payroll process. The employer's payment of PAYE and NICs is reduced each month to the extent it includes an employer Class 1 NICs liability until the Employment Allowance limit has been reached.

There are some exceptions to which NICs the Employment Allowance may be claimed against. In addition the allowance is shared between connected companies. We can assist you in calculating the Employment Allowance available to your business.

Benefits in kind

Employers providing benefits such as company cars for employees have a further NICs liability under Class 1A. Contributions are payable on the amount charged to income tax as a taxable benefit. The 2025/26 rate of Class 1A is 15% for benefits provided.

The self-employed - Class 4 and Class 2 NICs

Class 4

Class 4 contributions are payable in respect of profits or gains immediately derived from the carrying on or exercise of one or more trades, professions or vocations, being profits or gains chargeable as trading income.

For 2025/26 Class 4 is payable at 6% on profits between £12,570 and £50,270 In addition, there is a further 2% on profits above £50,270.

Class 2

Self-employed individuals previously had to make Class 2 NIC contributions at a flat weekly rate where profits exceeded a particular threshold.

From 6 April 2024, the government has abolished the need to pay Class 2 NIC by treating those with profits over the Small Profits Threshold (SPT) as having made a notional contribution. The SPT for 2025/26 is £6,845. Voluntary contributions may still be made by self-employed individuals with profits not exceeding £6,845 at a rate of £3.50 per week.

Voluntary contributions - Class 3

Flat rate voluntary contributions are payable under Class 3 of £17.75 per week for 2025/26. They give an entitlement to basic retirement pension and may be paid by someone not liable for other contributions in order to maintain a full NICs record.

Potential problems

Time of payment of contributions

Class 1 contributions are payable at the same time as PAYE, ie monthly. Class 1A contributions are not due until 19 July (22 July for electronic payment) after the tax year in which the benefits were provided.

It is therefore important to distinguish between earnings and benefits.

Earnings

Class 1 earnings will not always be the same as those for income tax. Earnings for NI purposes include:

- salaries and wages
- bonuses, commissions and fees
- holiday pay
- certain termination payments.

Problems may be encountered in relation to the treatment of:

- expense payments
- benefits.

Expense payments will generally be outside the scope of NI where they are specific payments in relation to identifiable business expenses. However NI is payable on round sum allowances.

Generally, benefits are not liable to Class 1 NICs. There are however some important exceptions including:

- most vouchers
- stocks and shares
- other assets which can be readily converted into cash
- the payment of an employee's liability by an employer.

Directors

Directors are employees and must pay Class 1 NICs. However, directorships can give rise to specific NICs problems. For example:

- directors may have more than one directorship
- fees and bonuses are subject to NICs when they are voted or paid whichever is the earlier
- directors' loan accounts where overdrawn can give rise to a class 1A NIC liability.

We can advise on the position in any specific circumstances.

Employed or self-employed

The NICs liability for an employee is higher than for a self-employed individual with profits of an equivalent amount. Hence there is an incentive to claim to be self-employed rather than employed.

Are you employed or self-employed? How can you tell? In practice, it can be a complex area and there may be some situations where the answer is not clear.

In general terms the existence of the following factors would tend to suggest employment rather than self-employment:

- the 'employer' is obliged to offer work and the 'employee' is obliged to accept it
- a 'master/servant' relationship exists
- the job performed is an integral part of the business
- there is no financial risk for the 'employee'.

It is important to seek professional advice at an early stage.

If HMRC discovers that someone has been wrongly treated as self-employed, they will re-categorise them as employed and are likely to seek to recover arrears of contributions from the employer.

Enforcement

HMRC carry out compliance visits in an attempt to identify and collect arrears of NICs. They may ask to see the records supporting any payments made.

HMRC has the power to collect any additional NICs that may be due for both current and prior years. Any arrears may be subject to interest and penalties.

Please contact us for advice on NICs compliance and ways to minimise the effect of an HMRC visit.

How we can help

Whether you are an employer or employee, employed or self-employed, awareness of NICs matters is vital.

HMRC have wide enforcement powers and anti-avoidance legislation available to them. Consequently, it is important to ensure that professional advice is sought so that all compliance matters are properly dealt with.

We would be delighted to advise on any compliance matters relevant to your own circumstances so please contact us.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET

Occupational Pension Schemes - Trustees' Responsibilities

01753 888211 | info@nhllp.com | www.nhllp.com

Many employers offer their staff an opportunity to save for their retirement through an occupational (or company) pension scheme.

Those employees who join the scheme need to have confidence that the scheme is being well run.

The role of pension scheme trustees is very important in ensuring that the scheme is run honestly and efficiently and in the best interests of the members.

We outline in this factsheet the main responsibilities of occupational pension scheme trustees.

Background

The Pensions Act 1995 (the Act) brought about a number of major changes to the way occupational pension schemes are run. The 2004 Pensions Act brought about further change and introduced, in April 2005, The Pensions Regulator (TPR) as the UK regulator of work-based pension schemes.

TPR has an important role in the pension sector. Its objectives, as set out in legislation, are to:

- protect the benefits of members of work-based pension schemes
- protect the benefits of members of personal pension schemes (where there is a direct payment arrangement)
- promote, and to improve understanding of the good administration of work-based pension schemes
- reduce the risk of situations arising which may lead to claims for compensation being payable from the Pension Protection Fund
- maximise employer compliance with employer duties and the employment safeguards introduced by the Pensions Act 2008
- minimise any adverse impact on the sustainable growth of an employer (in relation to the exercise of the regulator's functions under Part 3 of the Pension Act 2014).

TPR has three core powers that underpin its regulatory approach:

- investigating schemes by gathering information that helps them identify and monitor risks
- putting things right where problems have been identified
- acting against avoidance to ensure that employers do not sidestep their pension obligations.

In fulfilling its role, TPR produces important guidance for those involved with pension schemes including trustees as well as auditors and actuaries. This guidance is available from TPR's website www.thepensionsregulator.gov.uk.

The Pensions Act 2008 introduced a requirement on UK employers to automatically enrol all employees in a 'qualifying auto-enrolment pension scheme' and to make contributions to that scheme on their behalf. Enrolment may be either into an occupational pension scheme or a contract based scheme.

Many contract based schemes are group personal pensions where an employer appoints a pension provider, often an insurance company, to run the scheme. The National Employment Savings Trust (NEST) is a government backed pension scheme that employers can use for auto enrolling employees.

Further information is available at www.tpr.gov.uk/autoenrolment.

Pension scheme classification

Employers can help promote retirement benefits for their employees in a number of ways including:

- occupational schemes
- group personal pension schemes
- stakeholder schemes.

Group personal pension schemes and stakeholder schemes are personal plans in individual member's names, where the employer simply acts as an administrator. There are no accounting or audit requirements for these types of schemes.

An occupational pension is an arrangement an employer can use to provide benefits for their employees when they leave or retire.

There are two main types of occupational pension scheme in the UK:

- salary-related schemes
- money purchase schemes.

Whatever the type of scheme, it will usually have trustees.

The role of trustees

Most company pension schemes in the UK are set up as trusts. There are two main reasons for this:

- it is necessary in order to gain most of the tax advantages
- it makes sure that the assets of the pension scheme are kept separate from those of the employer.

A trustee is a person or company, acting separately from an employer, who holds assets for the beneficiaries of the pension scheme. Trustees are responsible for ensuring that the pension scheme is run properly and that members' benefits are secure.

In fulfilling their role, trustees must be aware of their legal duties and responsibilities. The law requires trustees to have knowledge and understanding of, amongst other things, the law relating to pensions and trusts, the funding of pension schemes and the investment of scheme assets.

The law also requires trustees to be familiar with:

- certain pension scheme documents including the trust deed and rules
- the statements of investment principles and funding principles.

A code of practice has been issued by TPR explaining what trustees need to do in order to comply with the law in this area. Trustees should arrange appropriate training as soon as they are appointed and should then continue with their learning to keep their knowledge up to date. New trustees have six months from their appointment date to comply with this requirement.

Trustees' duties and responsibilities

Trustees have a number of very important duties and responsibilities, which include:

- acting impartially, prudently, responsibly and honestly and in the best interests of scheme beneficiaries
- acting in line with the trust deed, scheme rules and the legal framework surrounding pensions.

In addition to these general duties, trustees also have a number of specific duties and tasks that they must carry out. The main tasks are to ensure the following happen.

Contributions

- The employer accurately pays over contributions on time. There are strict rules covering this area.

Financial records and requirements

- The right benefits are paid out on time.
- An annual report is prepared (see annual report below).
- An auditor's statement is obtained confirming details of the payment of contributions to the scheme and, if required, an audit of the scheme accounts is arranged.

Investment

- The pension fund is properly invested in line with the scheme's investment principles and relevant law.

Professional advisers

- Suitable professional advisers are appointed as running a pension scheme is complicated and often specialist advice will be needed.

Pension scheme records

- Full and accurate accounting records are kept, which include records of past and present members, transactions into, and out of, the scheme and written records of trustees' meetings.

Members

- Members and others are provided with information about the scheme and their personal benefits.

Registration, the scheme return and collecting the levy

- TPR is provided with information required by law for the register, that the scheme's annual return is completed and the annual levy for the scheme is paid.

Related matters

Reporting to TPR

Where a breach of law takes place and it is likely to be materially significant to TPR, trustees and indeed others involved in running the scheme have a legal duty to report the breach to the regulator. Code of practice 01, 'Reporting breaches of the law' provides guidance on the factors that should be considered when deciding to make a report.

In addition, trustees also have to notify TPR when particular scheme-related events happen. These are known as 'notifiable events', also the subject of a code of practice.

The annual report

The trustees of most schemes must make an annual report available within seven months of the scheme year end. The report usually includes:

- a trustees' report, containing investment, legal and administrative information about the scheme
- actuarial information, if applicable
- governance information, if applicable
- the audited accounts and audit report.

Other reports

Following the introduction of new regulations which came into force on 1 October 2021, the trustees of some schemes are also required to produce a Task Force on Climate-related Financial Disclosures (TCFD) report, although all schemes are able to adopt the new requirements on a voluntary basis.

The report should be published on a publicly available website, a link to which must be referred to in the scheme's Annual Report and Financial Statements.

A quick start guide, which outlines the TCFD requirements and trustee's legal duties, has been produced by the government and is available of the GOV.UK website https://www.gov.uk/government/consultations/aligning-your-pension-scheme-with-the-tcfd-recommendations/tcfd-for-trustees-of-pension-schemes-quick-start-guide.

There are plans to expand the new requirements to cover all schemes. A review of the requirements for smaller schemes is planned to take place soon with an announcement of any expansion in the requirements made in late 2024 or early 2025.

Trustees' liability

If something does go wrong with the pension scheme, trustees may be held personally liable for any loss caused as a result of a breach of trust. This could happen when, for example:

- a trustee carried out an act which is not authorised under the trust deed and scheme rules
- a trustee fails to do something that should have been done under the trust deed and scheme rules
- a trustee does not perform one or more of their duties under trust law or pension legislation or does not perform them with sufficient care.

The rules of the pension scheme might protect trustees from personal liability for a loss caused by breach of trust, except where it is due to their own actual fraud. In some cases, the employer may provide indemnity insurance for the trustees.

How we can help

We would be pleased to discuss your role as a company pension scheme trustee in more detail. We are also able to advise on the accounting and audit requirements of your scheme. Please contact us for further information.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Payroll - Basic Procedures

New employer

In order to set up a Pay As You Earn (PAYE) scheme with HMRC it is necessary to contact the New Employer's Helpline on 0300 200 3211 or register online via the GOV.UK website.

As an employer you will be responsible for operating PAYE and calculating National Insurance Contributions (NICs). There are also certain statutory payments you may have to make from time to time which you need to be aware of. These include:

- statutory sick pay (SSP)
- statutory maternity pay (SMP) and
- ordinary statutory paternity pay (OSPP)
- shared parental pay (ShPP).

A vast amount of information is available on the GOV.UK website detailing the operation of PAYE together with online calculators these can be accessed as part of the HMRC Basic PAYE tools at www.gov.uk/business-tax/paye

If requested HMRC will send you several booklets and tables to enable you to make the relevant deductions and payments to your employees. However, the majority of employers use the HMRC Basic PAYE tools or equivalent software.

Real Time Information reporting

Employers, or their agents, are generally required to make regular online payroll submissions for each pay period during the year detailing payments and deductions made from employees on or before the date they are paid to the employees.

More detailed guidance and information on operating your payroll under Real Time Information can be found at www.gov.uk/paye-for-employers or in our Payroll Real Time Information factsheet.

What tax do I have to deduct?

By using the calculators provided on HMRC's website or equivalent software, you should be able to calculate the tax and NICs due in respect of your employees.

The tax due for a particular employee is calculated by reference to their gross pay with a deduction for their tax free pay which reflects their particular circumstances (using their coding notice and the pay date). The remainder of the pay is subject to tax and this is calculated using the Basic PAYE tools or software.

Tax is generally calculated on a cumulative basis, looking at the individual's circumstances for the tax year to date.

What about NICs?

NICs are payable by the employee and the employer on the employee's gross pay for a particular tax week or month and are calculated on a non cumulative basis. The NICs can be calculated using the HMRC Basic PAYE tools or equivalent software.

When do the tax and NICs have to be paid to HMRC?

The tax and NICs should be paid to HMRC by the 19th of the month following the payment. Tax months run from the 6th to the 5th of the month, so if an employee was paid on 25 July (tax month being 6 July to 5 August) the tax and NI would need to be paid over to HMRC by 19 August.

Any employer can pay electronically, if they wish, taking advantage of the cleared electronic payment date of 22nd as opposed to the usual 19th.

Employers whose average monthly payments are less than £1,500 are allowed to pay quarterly rather than monthly.

Large employers, with more than 250 employees, must pay tax and other deductions electronically.

Forms you will need to complete

You will need to complete the following forms or maintain the equivalent digital records:

- **P11 Deductions working sheet**
  This form (or a computer generated equivalent) must be maintained for each employee. It details their pay and deductions for each week or month of the tax year.
- **P60 End of year summary**
  This form has to be completed for and given to all employees employed in a tax year.
- **P45 Details of employee leaving**
  This form needs to be given to any employee who leaves and details the earnings and tax paid so far in the tax year. New employees should let you have the form from their previous employer.

- **Starter Checklist**
  When a new employee starts you will need to advise HMRC so that you can pay them under RTI. Some of the necessary information may be obtained from the P45 if the employee has one from a previous job.

Penalties

HMRC impose penalties on employers who fail to:

- make the online submissions on time
- pay the liabilities on time
- keep the necessary records
- operate PAYE or NI correctly
- make the correct statutory payments
- provide HMRC or the employees with the relevant forms on time.

It is important that employers comply with all the regulations.

Automatic enrolment pensions

Automatic enrolment places duties on employers to automatically enrol 'workers' into a work based pension scheme from a specified 'staging date'. The main duties are:

- assess the types of workers in the business
- provide a qualifying automatic enrolment pension scheme for the relevant workers
- write to most of their workers explaining what automatic enrolment into a workplace pension means for them
- automatically enrol all 'eligible jobholders' into the scheme and pay employer contributions
- complete the declaration of compliance and keep records.

More information on Pensions - Automatic Enrolment can be found in the factsheet.

How we can help

The operation of PAYE can be a difficult and time consuming procedure for those in business. We will be happy to show you how to operate PAYE correctly, offer ongoing advice on particular issues, or to carry out your payroll for you so please do contact us.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Payroll Real Time Information

We set out below details of how payroll information has to be submitted to HMRC under Real Time Information (RTI).

RTI - an introduction

Under RTI, employers or their agents are required to make regular payroll submissions for each pay period during the year, detailing payments and deductions made from employees each time they are paid. There are two main returns which an employer needs to make which are detailed below.

Full Payment Submission

The Full Payment Submission (FPS) must be sent to HMRC **on or before** the date employees are paid. This submission details pay and deductions made from an employee. The FPS must reach HMRC on or before the date of payment of the wages to employees.

Employer Payment Summary

Employers may also have to make a further return to HMRC each month, the Employer Payment Summary (EPS) to cover the following situations:

- where no employees were paid in the tax month
- where the employer has received advance funding to cover statutory payments
- where statutory payments are recoverable (such as Statutory Maternity Paternity or Shared Parental Pay) together with the National Insurance Compensation payment; or
- where CIS deductions are suffered which could be offset (companies only).

HMRC will offset the amounts recoverable against the amount due from the FPS to calculate what should be payable. The EPS needs to be with HMRC by the 19th of the month to be offset against the payment due for the previous tax month.

Payments to HMRC

Please bear in mind that under RTI HMRC are aware of the amount due on a monthly/quarterly basis. This will be part of the information reported to HMRC through the FPS and EPS.

HMRC will expect to receive the PAYE and NIC deductions less the payments each month or quarter (small employers only).

Year end procedures

At the end of the tax year a final FPS or EPS return must be made to advise HMRC that all payments and deductions have been reported to HMRC.

Some further complications

Wages

Under RTI it is not possible to put through wages at the year end of the business and assume this has been paid throughout the year, for example to utilise a family member's national insurance lower earnings limit which gives them a credit for state pension and statutory payment purposes.

Wages should be paid regularly and details provided to HMRC through the RTI system on a timely basis.

Payments which are impractical to report 'on or before'

HMRC have issued guidance covering issues such as payments made on the day of work (which vary depending on the work done) where it is impractical to report in real time. The regulations allow up to an additional seven days for reporting the payment in specified circumstances.

HMRC have also made available some guidance on exceptions to reporting PAYE information 'on or before' paying an employee which can be found at www.gov.uk/running-payroll/fps-after-payday.

Please do contact us if you would like any further help or advice on payroll procedures.

Penalties

Penalties apply where employers fail to meet their RTI filing and payment obligations.

In essence, late filing penalties apply to each PAYE scheme, with the size of the penalty based on the number of employees in the scheme. Monthly penalties of between £100 and £400 may be applied to micro, small, medium and large employers as shown below:

- 1-9 employees - £100
- 10-49 employees - £200
- 50-249 employees - £300; and
- 250 or more employees - £400.

Each scheme is subject to only one late filing penalty each month regardless of the number of returns submitted late in the month. There will be one unpenalised default each year with all subsequent defaults attracting a penalty. Rather than issue late filing penalties automatically when a deadline is missed, HMRC has confirmed that they will *'take a more proportionate approach and concentrate on the more serious defaults on a risk-assessed basis'*.

HMRC charges daily interest on all unpaid amounts from the due and payable date to the date of payment, and will raise the charge when payment in full has been made. They may also charge penalties to employers who fail to pay their PAYE liabilities on time. These penalties are 'risk assessed' and range between 1% and 4% of the amounts paid late. The first late payment will not attract a penalty.

How we can help

The operation of PAYE under RTI can be a difficult and time consuming procedure for those in business. We will be happy to show you how to operate PAYE correctly, offer ongoing advice on particular issues, or to carry out your payroll for you so please do contact us.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Pension Funds - Tax Treatment on Death

Alongside the changes from April 2015 to the access of defined contribution pension funds, significant changes were made to the income tax treatment of pension funds on death. These changes significantly reduced the income tax charges.

This factsheet summarises the current rules for **defined contribution schemes** which may allow a pension fund to pass free of all taxes for both the estate of the deceased and for the beneficiaries of the pension fund.

IHT and pension funds

Pension death benefits may be subject to inheritance tax (IHT). This will be the case for example if the member has control over who the beneficiaries will be as HMRC will take the view that essentially the death benefits form part of the member's estate for IHT.

Many schemes though do not give members the choice and all death benefits are paid at the discretion of the scheme administrator. This means they will be free of IHT. Of course, the administrator will want to pay out according to the member's wishes so it is important that a member makes a 'letter of wishes' to the pension provider suggesting to whom the funds should be paid.

It is worth noting that if an individual withdraws monies from their pension fund, these now comprise part of their estate and are potentially subject to IHT.

Changes announced from 6 April 2027

At Autumn Budget 2024, the government announced its intention to include in the IHT estate all unused pension funds and death benefits payable from a pension. This is a significant blow to those hoping to pass on unused funds to their family. If this is of relevance to you please contact us for a review of your options.

Income tax charges on pension funds

Deaths under age 75

When an individual dies under the age of 75, their defined contribution pension fund can pass income tax free, whether it is in a drawdown account or untouched to any person. This includes a trust.

The fund can be paid out as a lump sum to a beneficiary or taken out by the beneficiary through a 'flexi-access drawdown account'.

This tax treatment applies to pension funds which do not exceed the Lump Sum and Death Benefit allowance (LSDBA) which is set at £1,073,100. Excess amounts will be chargeable on the beneficiaries when they access the funds at their marginal rate of income tax.

For this beneficial treatment to apply, it is critical that the beneficiary or beneficiaries are designated within two years of the death of the individual otherwise, any lump sum payments made after the two years will be taxed at the recipient's marginal rate of income tax.

Deaths from age 75

Those aged 75 or over when they die will be able to pass their defined contribution pension fund to any beneficiary who will then be able to draw down on it as income or as a lump sum at their marginal rate of income tax. Alternatively, the benefits can be paid as a lump sum to a trust with a 45% tax charge.

Given the changes to income tax treatment from age 75, it may be appropriate to consider withdrawing and using the tax free cash before reaching that age.This is particularly relevant now that it is also intended to include unused pension funds at death for IHT purposes from 6 April 2027. Specific pensions advice should always be undertaken before undertaking any withdrawals. This advice should be from an FCA regulated financial adviser.

Tax treatment of inherited annuities

Beneficiaries of individuals who die under the age of 75 with a joint life or guaranteed term annuity are able to receive any future payments from such policies tax free. If the individual dies aged 75 or over beneficiaries can receive payments at their marginal income tax rate. These annuities are generally already within the scope of IHT on the deceased's death.

How we can help

The impact of the current beneficial tax treatment of pension funds on death has in recent times turned traditional IHT planning on its head. However, the planned inclusion of unused funds and death benefits payable for IHT from April 2027 means those affected will need to review their retirement and estate planning strategies. Please do contact us for guidance on the options available and the effect on your current IHT plans.

Professional advice is always recommended before actions are taken in respect of IHT or pensions planning.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Pension Savings - Tax Aspects

Types of pension schemes

There are two broad types of pension schemes from which an individual may eventually be in receipt of a pension:

- Workplace pension schemes
- Personal Pension schemes.

A Workplace pension scheme may either be a defined benefit scheme or a money purchase scheme.

A defined benefit scheme pays a retirement income based on final salary and years of service, while a money purchase scheme instead reflects the amount invested and the underlying investment fund performance.

The number of defined benefit pension schemes has declined in recent years in part due to the regulations imposed upon the schemes and the cost of such schemes to the employer. The majority remaining are in the public sector. Each scheme sets its own rules within the permitted legislation so professional advice is always recommended when dealing with such schemes. Detailed aspects are therefore not covered in this fact sheet.

All employers are required to provide a workplace pension scheme due to auto-enrolment legislation and these are mainly money purchase schemes. A separate factsheet on auto- enrolment is available.

A Personal Pension scheme is a privately funded pension plan but can also be funded by an employer. These are also money purchase schemes. Self-employed individuals can have a Personal Pension.

To benefit from tax privileges all pension schemes must be registered with HMRC. For a Personal Pension scheme, registration will be organised by the pension provider.

We set out below the tax reliefs available to members of a money purchase Workplace scheme or a Personal Pension scheme.

It is important that professional advice is sought on pension issues relevant to your personal circumstances.

What are the tax breaks and controls on the tax breaks?

An individual is entitled to make contributions and receive tax relief on the higher of £3,600 or 100% of earnings in any given tax year. However, tax relief will be restricted for contributions in excess of the annual allowance.

A money purchase scheme allows the member to obtain tax relief on contributions into the scheme and tax-free growth of the fund. If an employer contributes to the scheme on behalf of an employee, there is generally no tax charge on the member and the employer will obtain a deduction from their taxable profits.

Under the current pensions regime, there are no limits on either the maximum amount which can be invested in a pension scheme or on the total value within pension funds. However, there are controls which limit the tax reliefs available. Firstly, there are limits on the amount of tax relief available to the member in making the contributions to or accruing the benefits in their pension schemes. Secondly, there are tax free limits in accessing those benefits.

Each individual has an annual allowance which sets the maximum amount which can be invested with tax relief into a pension fund. The allowance applies to the combined contributions of an employee and employer (where relevant). Amounts in excess of this allowance trigger a charge.

When benefits are accessed, there is a lump sum and death benefit allowance which limits the amount which can be accessed tax free depending on various circumstances.

Key features of money purchase pensions

- Contributions are invested for long-term growth up to the selected retirement age.
- At retirement (which may be any time from the age of 55) the accumulated fund is generally turned into retirement benefits which may include a tax-free lump sum and then taxable income.
- Employer contributions (where relevant) are payable gross direct to the pension provider.

Persons eligible

All UK residents may have a money purchase pension. This includes non-taxpayers such as children and non-earning adults. However, they will only be entitled to tax relief on gross contributions of up to £3,600 per annum.

Methods of giving tax relief

Personal Pension Plans

Personal contributions are generally payable net of basic rate tax relief, leaving the pension scheme provider to claim the tax back from HMRC.

Higher and additional rate relief is given as a reduction in the taxpayer's tax bill. This is normally dealt with by claiming tax relief through the self assessment system.

There are special rules if contributions are made to a retirement annuity contract. (These are old schemes started before the introduction of personal pensions.)

Workplace pension schemes

There are two distinct methods which operate and it is vital that the method applying to particular pension arrangements is identified to ensure the correct tax treatment. The alternative methods are as follows:

- A net of basic rate tax contribution is deducted from net pay of the employee. The contribution is then paid over by the employer to the pension scheme. The basic rate is claimed back from HMRC by the pension provider. Higher or additional rate relief is claimed through the self assessment system.
- A gross contribution is deducted from the employee's gross salary and paid by the employer to the scheme. This lowers the employee's PAYE tax bill and no further action is needed by taxpayers as the correct relief has been given through the payroll.

One effective route for an employee to consider may be to enter a salary sacrifice arrangement with an employer. The employer will make a gross contribution to the pension provider and the employee's gross salary is reduced. This will give the employee full income tax relief (by reducing PAYE) but also reduces National Insurance contributions (NICs).

The annual allowance

The annual allowance was increased to £60,000 from 6 April 2023. Previously it had been £40,000.

Any contributions in excess of the £60,000 annual allowance are potentially charged to tax on the individual as their top slice of income. Contributions include contributions made by an employer.

The stated purpose of the charging regime is to discourage pension saving in tax registered pensions beyond the annual allowance. Most individuals and employers actively seek to restrict pension saving so as to not exceed the annual allowance, rather than fall within the charging regime.

Carry forward of unused annual allowance

A carry forward of unused annual allowance is available for three years. This is useful for individuals who may have uncertain income streams or in situations where the 'owner managed business' company employer has fluctuating profits, allowing higher contributions to be made in a given tax year where there is brought forward capacity available.

For 2025/26, the unused allowance that can be brought forward is from 2022/23, 2023/24 and 2024/25, provided the individual was a member of a registered pension scheme at some time during the relevant brought forward tax year. Note however, that the annual allowance available for 2022/23 was only £40,000.

Unused annual allowance carried forward is the amount by which the annual allowance for that tax year exceeded the total pension savings for that tax year.

The annual allowance for the current tax year is always used before any unused allowance brought forward. The earliest year unused allowance is then used before a later year.

Example

Assume it is March 2026. Bob is a self employed builder who has had a very profitable year.

In the previous three years Bob has made contributions of £30,000, £10,000 and £30,000 to his pension scheme. He therefore has spare capacity of £10,000 from 2022/23 (£40,000 - £30,000), £50,000 from 2023/24 (£60,000 - £10,000), and £30,000 from 2024/25 (£60,000 - £30,000) to carry forward to 2025/26.

In 2025/26, Bob has the current year annual allowance of £60,000 and £90,000 brought forward amounts, which means that Bob can make a contribution of £150,000 without having to pay any extra tax charge.

If he decides to make a contribution of say £70,000, this will use the current annual allowance of £60,000 and £10,000 brought forward from 2022/23. This would be sensible as the brought forward capacity from that earliest year will expire on 5 April 2026.

Lower annual allowance for those with high levels of income

Individuals with high levels of income may have their annual allowance reduced to limit the tax reliefs they obtain. This is known as tapering the allowance and applies where both their 'adjusted' and 'threshold' income exceeds certain levels. Professional advice should be sought as to the detailed meaning of these terms.

However, 'threshold' income means, broadly, a person's taxable income and 'adjusted' income is' threshold' income plus pension contributions made by an employer.

Currently the threshold income level is £200,000 and the adjusted income threshold £260,000. For every £2 of adjusted income over the adjusted income threshold, an individual's annual allowance is reduced by £1, down to a minimum amount. The minimum amount is currently £10,000.

Example

Victoria has adjusted income of £280,000 and threshold income of £220,000. Her annual allowance will therefore be tapered. As she has £20,000 excess income above the £260,000 limit she will lose £10,000 (£1 for every £2 excess) of her annual allowance. Her annual allowance is therefore £50,000.

The rate of charge if annual allowance is exceeded

The charge is levied on the excess above the annual allowance at the appropriate rate in respect of the total pension savings. There are exemptions from the charge in the case of serious ill health as well as death.

The appropriate rate will broadly be the top rate of income tax that you pay on your income.

Example

Anthony, who is employed, has income (before pensions tax relief) of £200,000 in 2025/26. He makes personal pension contributions of £56,000 net in March 2026. He has made similar contributions in the previous three tax years.
He will be entitled to a maximum £60,000 annual allowance for 2025/26. The charge will be:

Gross pension contribution	£70,000
Less annual allowance	(£60,000)
Excess	£10,000 taxable at 45% = £4,500

Anthony will have had tax relief on his pension contributions of £31,500 (£70,000 x 45%) and now effectively has £4,500 clawed back. The tax adjustments will be made as part of the self assessment tax return process.

The lump sum allowance (LSA) and the lump sum death benefit allowance (LSDBA)

The annual allowance rules control the level of tax relief on contributions to money purchase schemes and accrued benefits in defined benefit schemes whilst growing your pensions tax savings. The LSA and the LSDBA determine the amount of benefits which can be accessed tax free depending on set circumstances.

Individuals who have money purchase schemes and some defined benefit schemes can take a tax free lump sum when accessing pension benefits.This is referred to as the LSA. Generally, this is limited to 25% of the standard LSDBA. The LSDBA is set at £1,073,100 so 25% is a maximum of £268,275. Other pension income extraction is subject to normal income tax rules. Where individuals are permitted to take a higher lump sum, the excess above the limit is subject to income tax.

Certain individuals with pension protection certificates are entitled to higher tax free limits. This is a complex area and specialist professional advice should always be taken.

In certain situations, the whole of the LSDBA can be accessed tax free. This occurs for example where an individual dies before the age of 75 or qualifies due to serious ill health.

Accessing pension benefits from money purchase schemes

Individuals have flexibility to choose how to access their pension funds from the age of 55.

The options include:

- a tax-free lump sum of 25% of fund value (as detailed above)
- purchase of an annuity with the remaining fund, or
- income drawdown (see below for options available regarding flexi access accounts and lump sum payments).

An annuity is taxable income in the year of receipt. Similarly any monies received from the income drawdown fund are taxable income in the year of receipt.

Flexi access accounts and lump sums

Where a lump sum and annuity are not taken access to the fund can be achieved in one of two ways:

- allocation of a pension fund (or part of a pension fund) into a 'flexi-access drawdown account' from which any amount can be taken over whatever period the person decides
- taking a single or series of lump sums from a pension fund (known as an 'uncrystallised funds pension lump sum').

When an allocation of funds into a flexi-access account is made the member typically will take the opportunity of taking a tax-free lump sum from the fund.

The person will then decide how much or how little to take from the flexi-access account. Any amounts that are taken will count as taxable income in the year of receipt.

Access to some or all of a pension fund without first allocating to a flexi-access account can be achieved by taking an uncrystallised funds pension lump sum.

The tax effect will be:

- 25% is tax-free (subject to the limit detailed above)
- the remainder is taxable as income.

Money Purchase Annual Allowance (MPAA)

The government is alive to the possibility that those aged 55 and over could take advantage of the flexibilities by 'recycling' their earned income into pensions and then immediately taking out amounts from their pension funds. Without further controls being put into place an individual could obtain tax relief on the pension contributions but only be taxed on 75% of the funds immediately withdrawn.

A reduced annual allowance therefore applies in certain scenarios to limit the tax relief on contributions. This is known as the MPAA and the allowance is currently £10,000 per tax year, overriding the normal £60,000 annual allowance.

There is no carry forward of any of the MPAA to a later year if it is not used in the year.

The main scenarios in which the reduced annual allowance is triggered are if:

- any income is taken from a flexi-access drawdown account, or
- an uncrystallised funds pension lump sum is received.

However just taking a tax-free lump sum when funds are transferred into a flexi-access account will not trigger the MPAA rule.

How we can help

This information sheet provides general information on the making of pension savings provision. Please contact us for more detailed advice.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

FACTSHEET
Pensions - Automatic Enrolment

01753 888211 | info@nhllp.com | www.nhllp.com

What is automatic enrolment?

Automatic enrolment places duties on employers to automatically enrol 'workers' into a work based pension scheme. The main duties are:

- assessing the types of workers in the business
- providing a qualifying automatic enrolment pension scheme for the relevant workers
- writing to most of their workers explaining what automatic enrolment into a workplace pension means for them
- automatically enrolling all 'eligible jobholders' into the scheme and paying employer contributions
- completing the declaration of compliance and keeping records
- Doing a re-enrolment and re-declaration every three years.

Assessing the types of workers in the business

Whether this is an easy or difficult task depends on the type of business. A business which uses the services of casual workers, very young or very old workers will need to spend some time in analysing its workforce. A business which only employs salaried staff will have an easier task.

A 'worker' is:

- an employee; or
- a person who has a contract to provide work or services personally and is not undertaking the work as part of their own business.

The second category is defined in the same way as a 'worker' in employment law. Such people, although not employees, are entitled to core employment rights such as the National Minimum Wage (NMW). Individuals in this category include some agency workers and some short-term casual workers.

There are three categories of workers: eligible jobholders; non-eligible jobholders; and entitled workers.

An 'eligible jobholder' is a worker who is:

- aged between 22 years and the State Pension Age
- earning over the minimum earnings threshold (currently £10,000)
- working or ordinarily working in the UK
- not already in a qualifying pension scheme.

Most workers will be eligible jobholders unless the employer already has a qualifying pension scheme. These are the workers for whom automatic enrolment will be required.

Other workers (non-eligible jobholders) may have the right to 'opt in' (ie join a scheme) and should therefore be treated as eligible jobholders if they do opt in. 'Entitled workers' are entitled to join the scheme but there is no requirement on the employer to make employer contributions in respect of these workers.

The categorisation of workers can be difficult in some circumstances. Please contact us if you are unsure of how to assess the types of workers you have.

What is a qualifying automatic enrolment pension scheme?

Employers are able to comply with their obligations by using an existing qualifying pension scheme, setting up a new scheme or using the government low cost scheme - the National Employment Savings Trust (NEST).

It is important that the pension scheme chosen will deliver good outcomes for the employee's retirement savings. This may mean that an employer's existing scheme may not be appropriate as it may have been designed for the needs of higher paid and more senior employees. This may mean that NEST for example may be an appropriate scheme for employees who are not currently entitled to be a member of an existing employer scheme.

To be a qualifying automatic enrolment scheme, a scheme must meet the qualifying criteria and the automatic enrolment criteria.

The main part of the qualifying criteria requires the pension scheme to meet certain minimum standards, which differ according to the type of pension scheme. Most employers will want to offer a defined contribution pension scheme. The minimum requirements for such schemes are a minimum total contribution based on qualifying earnings, of which a specified amount must come from the employer.

To be an automatic enrolment scheme, the scheme must not contain any provisions that:

- prevent the employer from making the required arrangements to automatically enrol, opt in or re-enrol a 'jobholder'
- require the jobholder to express a choice in relation to any matter, or to provide any information in order to remain an active member of the pension scheme.

The second point above means, for example, that the pension scheme has a default fund into which the pension contributions attributable to the jobholder will be invested. The jobholder should however have a choice of other funds if they want.

We may be able to advise you on an appropriate route to take. Please contact us.

Does automatic enrolment apply to all employers?

Since October 2017, all employers have automatic enrolment duties from the date they employ their first member of staff.

In principle, contributions will be due from the first day of employment but it is possible to postpone automatic enrolment for some or all employees for a period of up to three months. This may, for example, be used to avoid calculation of contributions on part-period earnings.

An employer can find out more about their duties at www.thepensionsregulator.gov.uk.

Communicating with your workers

Employers are required to write to all workers (except those aged under 16, or 75 and over) explaining what automatic enrolment into a workplace pension means for them.

There are different information requirements for each category of worker. For an eligible jobholder, the letter must include details of how the employee can opt out of the scheme if they wish. The letter must not, however, encourage the employee to opt out.

The Pensions Regulator (TPR) has developed a set of letter templates to help you when writing to your employees.

Automatic enrolment of eligible jobholders and payment of contributions

As part of the automatic enrolment process, employers will need to make contributions to the pension scheme for eligible jobholders.

All employers now need to contribute at least 3% on the 'qualifying pensionable earnings' for eligible jobholders. There is also a contribution which needs to be paid by employees if the employer does not meet the total minimum contribution of 8%.

Example

- If the employer contributes only 3% then the employee's gross contribution will be 5% so that an 8% total minimum contribution is made.
- If the employer contributes 5% then the employee's gross contribution will only be 3%.

What are qualifying pensionable earnings?

Earnings cover cash elements of pay including overtime and bonuses (gross) but minimum contributions are not necessarily calculated on total earnings. Contributions will be payable on earnings between a lower and a higher threshold. These thresholds are currently £6,240 and £50,270. (The earnings between these amounts are called qualifying earnings).

If we do your payroll, we can help you make these calculations and tell you the deductions from pay and the payments required to the pension scheme.

Declaration of Compliance

TPR was established to regulate work-based pensions.

An employer should have initially completed the Declaration of Compliance within five months of their duties starting. In essence the Declaration of Compliance process requires the employer to:

- confirm the correct auto enrolment procedures have been followed; and
- provide various pieces of information such as the number of eligible jobholders enrolled.

Employers' ongoing duties

Employers continue to have ongoing duties in respect of auto-enrolment.

Re-enrolment

Employers have a legal duty to re-enrol certain employees back into an automatic pension scheme every three years. The process involves reassessing the workforce and re-enrolling certain employees into their chosen qualifying automatic pension scheme. Employers are also required to complete the re-declaration of compliance with TPR, even if they do not have any staff to re-enrol. Re-enrolment should take place approximately three years after the original staging date.

As part of their re-enrolment responsibilities, employers are required to carry out the following tasks:

- **Re-enrolment date** – unless it is the first re-enrolment date this is always the third anniversary of the previous re-enrolment date. There is no option to postpone the re-enrolment date.

If it is the first re-enrolment date there is a six-month window from which to choose a date for re-enrolment. This can be either three months before or after the third anniversary of the original staging date. This situation is likely to be unusual.

- **Reassess the workforce** – the employer will only need to assess employees who were previously auto-enrolled and have subsequently either: asked to leave (opted out) of the pension scheme; left the pension scheme after the end of the opt-out period; or stopped or reduced their pension contributions to below the minimum level (and who meet the age and earnings criteria to be re-enrolled). Once the assessment is complete, employers should re-enrol eligible staff into a qualifying pension and start making contributions within six weeks of their re-enrolment date.
- **Write to those who have been re-enrolled** – the employer will need to write to each employee who has been re-enrolled into the pension scheme. This should be done within six weeks of the re-enrolment date. Template letters are available on TPR website.
- **Complete the re-declaration of compliance** – the employer is required to complete and submit the re-declaration of compliance with TPR to let them know that they have met their legal duties. This should be done within five months of the third anniversary of the staging/previous re-enrolment date. An employer is required to do this even if they have not re-enrolled any staff into the pension scheme.

Remember, re-enrolment and re-declaration is a legal requirement and failure to comply with the regulations may result in a fine.

The penalties for non-compliance

Employers who fail to comply with their legal duties may be subject to enforcement action. TPR has a range of powers it can utilise when taking action for non-compliance. This can range from warning letters and statutory notices to financial penalties. Fines range from a £400 fixed penalty, to a varying daily escalating penalty of between £50 and £10,000, depending on the number of employees. In the most extreme cases the Regulator may seek a criminal prosecution.

Keeping records

Finally, an employer must keep records which will enable them to prove that they have complied with their duties. Keeping accurate records also makes good business sense because it can help an employer to:

- avoid or resolve potential disputes with employees
- help check or reconcile contributions made to the pension scheme.

Duties checker TPR guidance

TPR guidance is available for employers to help them comply with their automatic enrolment duties: www.thepensionsregulator.gov.uk/en/employers.

Using the duties checker and the guidance, employers can follow a step-by-step process to comply with their duties. The guidance also includes links to tools and resources.

Changes ahead

New law in the form of The Pensions (Extension of Automatic Enrolment) Act 2023 extends the automatic enrolment regime. The Secretary of State will have the authority to be able to introduce new regulations to:

- Reduce the lower age limit for auto-enrolment from 22 to 18.

- Remove the lower earnings threshold for qualifying earnings (this is currently £6,240 per annum) so that contributions are calculated from the first £1 earned up to the upper limit (currently £50,270 per annum).

The implementation date for this has not yet been announced.

How we can help

As you can see pensions automatic enrolment is not straightforward. Please do contact us for help and advice. We can help you to manage the road to automatic enrolment and help you to comply with the requirements when you are in automatic enrolment.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Personal Tax - Dividends and Interest

Dividend and savings allowances are available. We consider the opportunities and pitfalls of the personal tax rules.

Dividend income

The availability of the Dividend Allowance (DA) means that the first £500 of dividends are charged to tax at 0%.

Dividends received above this allowance are taxed at the following rates:

- 8.75% for basic rate taxpayers
- 33.75% for higher rate taxpayers
- 39.35% for additional rate taxpayers.

Dividends within the allowance still count towards an individual's basic or higher rate band and so may affect the rate of tax paid on dividends above the £500 allowance.

Dividends are treated as the top slice of income and the basic rate tax band is first allocated against other income.

Example

Mr A has non-dividend income of £46,700 and receives dividends of £12,000. The non-dividend income is taxed first. The Personal Allowance is used against the non-dividend income and the remaining £34,130 is taxed at the basic rate.
£500 of dividends are covered by the Dividend Allowance. After non-savings income and the dividends covered by the dividend allowance there is £3,070 of the basic rate band remaining. £3,070 of the dividends are taxed at 8.75% and the remainder are taxed at the higher rate of 33.75%.

Savings income

Savings income includes:

- interest on bank and building society accounts
- interest on accounts with credit unions or National Savings and Investments
- interest distributions from authorised unit trusts, open-ended investment companies (OEICs) and investment trusts
- income from government or corporate bonds
- most types of purchased life annuity payments.

Some individuals qualify for a 0% starting rate of tax on savings income up to £5,000. However this rate is not available if non-savings income (broadly earnings, pensions, trading profits and property income) exceeds the starting rate limit.

The Savings Allowance (SA) taxes savings income within the SA at 0%. The amount of SA depends on the individual's marginal rate of tax. An individual taxed at the basic rate of tax has an SA of £1,000 whereas a higher rate taxpayer is entitled to an SA of £500. Additional rate taxpayers receive no SA.

Savings income in excess of the SA are taxed at the same rates as non-savings income being:

- 20% for basic rate taxpayers
- 40% for higher rate taxpayers
- 45% for additional rate taxpayers.

Savings within the SA still count towards an individual's basic or higher rate band and so may affect the rate of tax paid on savings above the SA.

Interaction between DA and SA

If the amount of dividends an individual receives is covered by the DA but those dividends would have meant that they were higher rate taxpayers without the DA, then this would affect the amount of SA they would receive.

Example

Mrs B has a salary of £49,000, interest income of £1,000 and dividends of £500. Although the dividends are covered by the DA, Mrs B's total income is £50,500 so she is a higher rate taxpayer. She would therefore only receive £500 of SA against the £1,000 of interest income.

Nunn Hayward
Chartered Accountants

Check your coding

Where savings income exceeds the SA, there will be tax to pay on the excess. HMRC tries to collect this tax by adjusting an individual's tax code. To allow them to do this they will use information from banks and building societies. However, in some cases, HMRC may overestimate the amount of interest people are likely to earn and adjust their coding accordingly. So, it is always worth checking coding notices when they come through.

Gift Aid donations

Take care if you make Gift Aid donations. A charity can reclaim the tax on a Gift Aid donation only if the individual has paid the amount of tax being reclaimed.

Savings and dividend income covered by the SA and DA is not taxed. Where this happens the individual is responsible for ensuring that the tax on the donation is covered. HMRC has powers to recover any shortfall from the taxpayer.

Planning for spouses/civil partners

The DA and SA may also mean it is important to consider the allocation of investments between husband and wives or civil partners. If just one partner has investments generating dividends or savings it could be beneficial to transfer part of the investments to the other partner to ensure they receive income which utilises their DA or SA. Any transfer of assets between spouses or civil partners can be made without any capital gains tax being charged.

How we can help

With various allowances available to taxpayers it is important to make sure full use is being made of the tax-free amounts. There are a number of areas where you may need specific advice depending on your circumstances so please do not hesitate to contact us.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Personal Tax - Self Assessment

01753 888211 | info@nhllp.com | www.nhllp.com

Under the self assessment regime an individual is responsible for ensuring that their tax liability is calculated and any tax owing is paid on time.

The self assessment cycle

Tax returns are issued shortly after the end of the fiscal year. The fiscal year runs from 6 April to the following 5 April (thanks to the switch from the Julian to the Gregorian calendar in 1752), so 2024/25 runs from 6 April 2024 to 5 April 2025. Tax returns are issued to all those whom HMRC are aware need a return including all those who are self-employed or company directors. Those individuals who complete returns online are sent a notice advising them that a tax return is due. If a taxpayer is not issued with a tax return but has tax due they should notify HMRC who may then issue a return.

A taxpayer is normally required to file their tax return by 31 January following the end of the fiscal year. The 2024/25 return must be filed by 31 October 2025 if submitted in 'paper' format. Returns submitted after this date must be filed online otherwise penalties will apply.

Penalties

Late filing penalties apply for personal tax returns as follows:

- £100* penalty immediately after the due date for filing (even if there is no tax to pay or the tax due has already been paid)

* The full penalty of £100 will always be due if your return is filed late even if there is no tax outstanding.

Additional penalties can be charged as follows:

- over three months late – a £10 daily penalty up to a maximum of £900
- over six months late – an additional £300 or 5% of the tax due if higher
- over 12 months late – a further £300 or a further 5% of the tax due if higher. In particularly serious cases there is a penalty of up to 100% of the tax due.

Calculating the tax liability and 'coding out' an underpayment

The taxpayer does have the option to ask HMRC to compute their tax liability in advance of the tax being due, in which case the return must be completed and filed by 31 October following the fiscal year. This is also the statutory deadline for making a return where you require HMRC to collect any underpayment of tax through your tax code, known as 'coding out'. However if you file your return online HMRC will extend this to 30 December. Whether you or HMRC calculate the tax liability there will be only one assessment covering all your tax liabilities for the tax year.

Changes to the tax return

Corrections/amendments

HMRC may correct a self assessment in order to correct any obvious errors or mistakes in the return.

An individual may, by notice to HMRC, amend their self assessment at any time within 12 months of the date of submission.

Enquiries

HMRC may enquire into any return by giving written notice. In most cases the time limit for HMRC is within 12 months following the filing date.

If HMRC does not enquire into a return, it will be final and conclusive unless the taxpayer makes an overpayment relief claim or HMRC makes a discovery.

It should be emphasised that HMRC cannot query any entry on a tax return without starting an enquiry. The main purpose of an enquiry is to identify any errors on, or omissions from, a tax return which result in an understatement of tax due. Please note however that the opening of an enquiry does not mean that a return is incorrect.

If there is an enquiry, we will also receive a letter from HMRC which will detail the information regarded as necessary by them to check the return. If such an eventuality arises we will contact you to discuss the contents of the letter.

Keeping records

HMRC wants to ensure that underlying records to the return exist if they decide to enquire into the return.

Records are required of income, expenditure and reliefs claimed. For most types of income this means keeping the documentation given to the taxpayer by the person making the payment. If expenses are claimed records are required to support the claim.

Checklist of books and records required for HMRC enquiry

Employees and Directors

- Details of payments made for business expenses (eg receipts, credit card statements)
- Share options awarded or exercised
- Deductions and reliefs

Documents you have signed or which have been provided to you by someone else:

- Interest and dividends
- Tax deduction certificates
- Dividend vouchers
- Gift aid payments
- Personal pension plan certificates

Personal financial records which support any claims based on amounts paid eg certificates of interest paid.

Business

- Invoices, bank statements and paying-in slips
- Invoices for purchases and other expenses
- Details of personal drawings from cash and bank receipts

How we can help

We can prepare your tax return on your behalf and advise on the appropriate tax payments to make.

If there is an enquiry into your tax return, we will assist you in answering any queries HMRC may have. Please do contact us for help.

Nunn Hayward
Chartered Accountants

FACTSHEET

Personal Tax - When is Income Tax and Capital Gains Tax Payable?

Under the self assessment regime an individual is responsible for ensuring that their tax liability is calculated and any tax owing is paid on time.

Payment of tax

The UK income tax system requires the payer of certain sources of income to deduct tax at source which removes the need for many taxpayers to submit a tax return or make additional payments. This applies in particular to employment income. Interest is now received gross of tax but the savings allowance removes most taxpayers from the need to pay tax on such income. However, deduction of tax at source is not possible for the self employed or if someone has substantial investment income. As a result we have a payment regime in which the payments will usually be made in instalments.

The instalments consist of two payments on account of equal amounts:

- the first on 31 January during the tax year and
- the second on 31 July following.

These are set by reference to the previous year's net income tax liability (and Class 4 NIC if any).

A final payment (or repayment) is due on 31 January following the tax year.

In calculating the level of instalments any tax attributable to capital gains is ignored. All capital gains tax is paid as part of the final payment due on 31 January following the end of the tax year.

A statement of account similar to a credit card statement is sent to the taxpayer periodically which summarises the payments required and the payments made.

Example

Sally's income tax liability for 2023/24 (after tax deducted at source) is £8,000. Her liability for 2024/25 is £10,500. Payments will be:

	£
31.1.2025 First instalment (50% of 2023/24 liability)	4,000
31.7.2025 Second instalment (50% of 2023/24 liability)	4,000
31.1.2026 Final payment (2023/24 liability less sums already paid)	2,500 ______
	£10,500

There will also be a payment on 31 January 2026 of £5,250, the first instalment of the 2025/26 tax year (50% of the 2024/25 liability).

Late payment penalties and interest

Using the late payment penalties HMRC may charge the following penalties if tax is paid late:

- A 5% penalty if the tax due on the 31 January is not paid within 30 days (the 'penalty date' is the day following).
- A further 5% penalty if the tax due on 31 January is not paid within five months after the penalty date.
- Additionally, there will be a third 5% penalty if the tax due on 31 January is not paid within 11 months after the penalty date.

These penalties are additional to the interest that is charged on all outstanding amounts, including unpaid penalties, until payment is received.

Nil payments on account

In certain circumstances the two payments on account will be set at nil. This applies if either:

- income tax (and NIC) liability for the preceding year - net of tax deducted at source and tax credit on dividends - is less than £1,000 in total or

- more than 80% of the income tax (and NIC) liability for the preceding year was met by deduction of tax at source and from tax credits on dividends.

Claim to reduce payments on account

If it is anticipated that the current year's tax liability will be lower than the previous year's, a claim can be made to reduce the payments on account.

How can we help

We can prepare your tax return on your behalf and advise on the appropriate payments on account to make.

We can advise you whether a claim to reduce payments on account should be made and to what amount. Please do contact us for help.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Preparing For Your Accountant

Nunn Hayward
Chartered Accountants

Whether we are producing your accounts or carrying out your annual audit, being prepared for us will ensure our work is carried out smoothly and efficiently and with the minimum disruption to yourselves.

You may also be able to help by preparing some of the routine schedules for us. This will mean our time can be better spent advising you on the running of your business.

Below we highlight some of the ways in which you can prepare.

It is however important for you to discuss these ideas with us since all of the suggestions may not be applicable.

Setting the scene

Keeping us informed

We will be better prepared if we know of any changes in your business that could affect our work. These could include changes to:

- product or market
- business strategy eg pricing policy
- bookkeeping system
- key personnel.

If you maintain minutes of any management meetings that you hold providing us with copies of these can be a very helpful way for us to gain an understanding of the key events that you have faced over the course of the year.

Also as part of our work it is likely that we will ask you whether there have been any instances of non-compliance with the legal and regulatory framework in which your business operates, including whether there has been any fraudulent activity that you are aware of. This represents part of our obligations that we are required to perform as your professional adviser and is not meant to imply that we believe that you may have committed any wrongdoing.

What we need

If you know what information we need to be able to complete our work you can make sure it is available.

We can decide together what you can prepare for us and what we will need to prepare for ourselves.

Better communication between us will help to minimise misunderstandings and avoid unnecessary work.

Timetable

We need to agree a suitable timetable in advance. This gives us both a chance to be properly prepared.

However, if you find yourself behind schedule let us know as soon as possible so that the timetable can be rearranged if necessary.

How you can help

Books and records

Setting up and maintaining your books in an organised manner will help us to extract quickly and easily the information needed to prepare or audit your accounts. It will also enable you to see at a glance the state of your business.

Consideration of the following points may improve the organisation of your records:

- totalling and balancing your books at regular intervals will help you spot and correct any mistakes
- analysing your payments and receipts so that information can be easily extracted
- filing your invoices in a logical order (numerical, alphabetical or date) to make it easy to find any one of them.

Procedures

By establishing and maintaining certain procedures you will be able to keep a better control over your records and your business. It will also mean we can cut down on the work we need to do which may save you some money.

We can help you set up these procedures initially and once established you will be able to carry them out yourself. These procedures will include control accounts, reconciliations and stocktaking.

Control accounts

Control accounts record the movements of cash, debtors and creditors by using the monthly totals from your cash book and sales and purchases summaries.

The cash control account will show how much cash the business has at the end of each month.

The debtors or sales ledger control account will show how much your customers owe you at the end of each month.

The creditors or purchase ledger control account will show how much you owe your suppliers at the end of each month.

Reconciliations

Reconciliations help to ensure that the figures in your books are complete and accurate. Therefore if produced on a regular basis they will help you spot any errors which can then be corrected before we examine your records. Some of the records which will need reconciling are:

- bank accounts
- control accounts
- suppliers' statements.

Stocktake

If your business carries any stock you will need to count it at least once a year. To ensure that the count is carried out efficiently and accurately you should consider the following points:

- stock items should be stored neatly and logically to make counting easier
- all staff involved in counting should be given clear instructions
- try to minimise the movement of stock during the count. If possible deliveries in and out should be withheld until the counting has finished
- spot checks should be performed during the count.

If you hold large amounts of stock we may need to attend the stocktake and perform our own checks.

Schedules

There are a number of schedules which have to be produced in order that the accounts can be prepared and/or audited. We can prepare all of these schedules ourselves but obviously if you were to produce them it would save time and money.

You may wish to consider the preparation of some of the following schedules:

- a detailed list of additions and disposals of fixed assets with a copy of the appropriate sales and purchase invoices attached
- schedules showing each item of stock held, the quantity, unit value and total value. Indicate any stock items which are old or damaged
- a list of your debtors at the year end including how much they owe you and how long they have been outstanding. Indicate any which are unlikely to pay you
- a schedule of all bank and cash balances at the year end, together with all the bank statements for each bank account
- a list of creditors which should include HMRC as well as the usual business suppliers
- supporting workings for disclosures that need to be included in your accounts, such as average employee numbers, operating lease commitments or directors' remuneration (required for companies only).

Not all of these schedules will be applicable to your business and therefore before doing anything you may wish to discuss this with us.

Other issues

Some issues are only relevant to companies. These include:

Narrative reports

Larger businesses may be required to include some form of narrative reporting that accompanies the accounts such as a strategic report. This is your opportunity to provide additional information that can support the users of your accounts' understanding of your business and its performance. If this is the case we will discuss these requirements with you so that you can produce the wording of any necessary reports.

Future plans

As part of the accounts production process you are required to consider the business' going concern position, to ensure that you are confident that it will have sufficient resources to remain in business for a minimum period of 12 months from the date that the accounts are approved. In addition you are also required to consider whether there is any evidence that the value of your assets has been impaired, for example as a result of obsolescence caused by changes in the market or technological developments.

If there is any uncertainty regarding the business' future performance we may ask you to provide evidence in support of your going concern assessment. This could include forecast results and cash flow projections, sales orders received or details of new sources of funding. Providing these at the earliest opportunity will ensure that our work can be completed as quickly and efficiently as possible.

How we can help

There are undoubtedly many advantages to be gained if you are better prepared before we commence our work.

We will be able to complete our work in less time. This will mean less disruption to you and your staff. In addition we will be better placed to provide you with useful and constructive advice regarding the development of your business.

However, perhaps the most rewarding of all these advantages will be the fact that your books and records will provide you with more useful information which will help you make better informed business decisions.

If you would like to discuss these procedures any further or would like us to provide further assistance with your monthly or quarterly accounts please contact us.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Property Investment - Buy to Let

The UK property market, whilst cyclical, has proved over the long-term to be a very successful investment. This has resulted in a massive expansion in the buy to let sector.

Buy to let involves investing in property with the expectation of capital growth with the rental income from tenants covering the mortgage costs and any outgoings.

However, the gross return from buy to let properties (ie the rent received less costs such as letting fees, maintenance, service charges and insurance) is no longer as attractive as it once was. Investors need to take a view on the likelihood of capital appreciation exceeding inflation.

This factsheet should be considered only in the context of a UK resident property owner.

Factors to consider

Do

- think of your investment as medium to long-term
- research the local market
- do your sums carefully
- consider decorating to a high standard to attract tenants quickly.

Don't

- purchase anything with serious maintenance problems
- think that friends and relatives can look after the letting for you - you're probably better off with a full management service
- cut corners with tenancy agreements and other legal documentation.

Which property?

Investing in a buy to let property is not the same as buying your own home. You may wish to get an agent to advise you of the local market for rented property. Is there a demand for say, two bedroom flats or four bedroom houses or properties close to schools or transport links? An agent will also be able to advise you of the standard of decoration and furnishings which are expected to get a quick let.

Agents

Letting property can be very time consuming and inconvenient. Tenants will expect a quick solution if the central heating breaks down over the bank holiday weekend! Also do you want to advertise the property yourself and show around prospective tenants? An agent will be able to deal with all of this for you.

Tenancy agreements

This important document will ensure that the legal position is clear.

Taxation

When buying to let, taxation aspects must be considered.

Tax on rental income

Income tax will be payable on the rents received after deducting allowable expenses. Allowable expenses include repairs, agent's letting fees and an allowance for furnishings

Restriction loan interest relief for 'buy to let' landlords

The amount of income tax relief landlords can get on residential property finance costs has been restricted to the basic rate of income tax. Finance costs include mortgage interest, interest on loans to buy furnishings and fees incurred when taking out or repaying mortgages or loans. No relief is available for capital repayments of a mortgage or loan.

This restriction does not apply to non-residential landlords.

Replacement of furnishings

A relief enables all landlords of residential dwelling houses to deduct the costs they actually incur on replacing furnishings, appliances and kitchenware in the property. Relief is due on the cost of replacing furnishings to a wide range of property businesses.

Examples of eligible capital expenditure are:

- furniture
- furnishings

- appliances (including white goods)
- kitchenware

but excludes items which are fixtures.

However, the relief is limited to the cost of an equivalent item if there is an improvement on the old item. The deduction is not available where rent-a-room relief is claimed.

Tax on sale

Capital gains tax (CGT) will be payable on the eventual sale of the property. The tax will be charged on the disposal proceeds less the original cost of the property, certain legal costs and any capital improvements made to the property. This gain may be further reduced by any annual exemption available.

CGT is generally charged at 18% within the basic rate and 24% for higher rates.

CGT is payable on 31 January after the end of the tax year in which the gain is made. A payment on account of any CGT due on the disposal of residential property is required to be made within 60 days of the completion of the disposal.

Student lettings

Buy to let may make sense if you have children at college or university. It is important that the arrangement is structured correctly. The student should purchase the property (with the parent acting as guarantor on the mortgage). There are several advantages to this arrangement.

Advantages

This is a cost effective way of providing your child with somewhere decent to live.

Rental income on letting spare rooms to other students should be sufficient to cover the mortgage repayments from a cash flow perspective.

As long as the property is the child's only property it should be exempt from CGT on its eventual sale as it will be regarded as their main residence.

The amount of rental income chargeable to income tax is reduced by a deduction known as 'rent a room relief' (£7,500). In this situation no expenses are tax deductible. Alternatively expenses can be deducted from income under normal letting rules where this is more beneficial.

Tax allowance for property and trading income

Two £1,000 allowances for property and trading income are available.

Where the allowances cover all of an individual's relevant income (before expenses) then they no longer have to declare or pay tax on this income. Those with higher amounts of income have the choice, when calculating their taxable profits, of deducting the allowance from their receipts, instead of deducting the actual allowable expenses. The trading allowance will also apply for Class 4 NICs.

The allowances do not apply to income on which rent a room relief is given. Neither do the allowances apply to partnership income from carrying on a trade, profession or property business in partnership.

The trading allowance may also apply to certain miscellaneous income from providing assets or services to the extent that the £1,000 trading allowance is not otherwise used.

How we can help

Whilst some generalisations can be made about buy to let properties it is always necessary to tailor any advice to your personal situation. Any plan must take into account your circumstances and aspirations.

Whilst a successful buy to let cannot be guaranteed, professional advice can help to sort out some of the potential problems and structure the investment correctly.

We would be happy to discuss buy to let further with you. Please contact us for more detailed advice.

Nunn Hayward
Chartered Accountants

FACTSHEET

Property Investment - Tax Aspects

Nunn Hayward
Chartered Accountants

Investment in property has been and continues to be a popular form of investment for many people. It is seen as a route by which:

- relatively secure capital gains can be made on eventual sale
- income returns can be generated throughout the period of ownership
- mortgage finance is covered in repayment terms by the security of the eventual sale of the property and in interest terms by the rental income.

Of course, the net returns in capital and income will depend on a host of factors. But on the basis that the investment appears to make commercial sense, what tax factors should you take into account?

This factsheet should be considered only in relation to a UK resident property owner.

Who or what should purchase the property?

An initial decision needs to be made whether to purchase the property:

- as an individual
- as a joint owner or via a partnership (often with a spouse)
- via a company.

There are significant differences in the tax effects of ownership by individuals or a company. Deciding on the best medium will depend on a number of factors. These include:

- if you already own a company
- expected drawings from the company
- whether you are expecting to invest in more property in the future
- whether you are expecting to sell individual properties piecemeal or as a portfolio in the future
- if you are mainly financing the initial purchases of the property from your own capital.

Initial purchase of the property

SDLT is payable by the purchaser of the property in England and Northern Ireland. Land and Buildings Transaction Tax is payable in Scotland and Land Transaction Tax is payable in Wales. The rates are dependent on the value of the property and whether it is residential or non-residential.

Purchase by company

Where expensive residential property, valued at more than £500,000, is purchased by a 'non natural person', broadly a company, there is a potential charge - the Annual Tax on Enveloped Dwellings (ATED). The ATED is payable by those purchasing and holding residential property through corporate envelopes, such as companies. In addition a higher rate of SDLT of 15% applies to the purchase.

There are exemptions from the higher rate of SDLT and the ATED charge; in particular, property companies letting out residential properties to third parties.

Ongoing rental

Rental income

For personally-owned property the net rental income will be taxed at your marginal rate of tax. Specific rules apply to split rental income for jointly owned properties and we can assist you with understanding these further.

In contrast, the net rental income for a company will be taxed at the corporation tax rate which may be lower than the income tax rates for an individual depending on the amount of rental and other sources of income. However there is frequently a further tax charge should you wish to extract any of the proceeds from the company.

The overall tax cost on income will therefore be partially dependent on how much of the income you wish to extract and how that income will be extracted e.g. salary, dividend, pension contribution etc. Where profits are retained by the company, the income may suffer less tax than if income tax applied. That means there are more funds available to buy more properties in the future.

Finance costs

Tax relief for finance costs on residential property held by an individual is limited to 20% as a basic rate income tax reducer.

This restriction does not apply to non-residential landlords nor to companies investing in residential or non-residential property.

Renting a commercial property to your own limited company

The personal purchase of new offices or other buildings and the charging of rent for the use of the buildings to your company may be tax efficient from an income tax position as:

- the rental you receive from the company allows sums to be extracted without National Insurance
- the company will be able to claim a corporate tax deduction for the rent
- finance costs are currently deductible from the rental income.

However, to the extent that rent is paid from the company, this may impact the availability of Business Asset Disposal Relief on a future disposal of the property (see below).

Disposal

Capital gains on the disposal of an asset are generally calculated by deducting the cost of the asset from the proceeds on disposal and reducing this by the annual exemption. Gains are treated as an individual's top slice of income and are generally taxed at 18% and 24% or a combination of the two. These rates apply regardless of whether the property is residential or non-residential (previously different rates applied to non-residential i.e. commercial property disposals).

Capital gains for companies will be subject to the rate of corporation tax applicable to the company ie 19% or 25%.

Business Asset Disposal Relief (BADR)

BADR is available on the disposal of trading businesses and therefore generally would not apply to property held by an individual as this would be considered investment activity.

However, where an individual owns a commercial property used by their trading business and the property is disposed of as part of a disposal of the business then the individual may benefit from the BADR rates (14% for 2025/26 increasing to 18% for 2026/27) on the disposal of the property as an 'associated disposal'. Relief is limited where the company pays rent on the property; BADR is not available where market value rent has been paid to the individual.

Care should also be taken around inserting an investment property into your trading company as this may result in your shareholding in that company not qualifying for BADR. You should consider whether another company should be formed to hold property to protect the trading status of the existing company.

Disposal of a property investment company

CGT will be due on the gain on the shares.

The disposal of shares may be more attractive to the purchaser of the properties rather than buying the properties directly, as they will only have 0.5% stamp duty to pay rather than the potentially higher sums of Stamp Duty Land Tax (SDLT) on the property purchases.

How we can help

This factsheet has concentrated on some of the tax factors to bear in mind when considering starting to invest in property.

You need to decide which is the best route to fit in with your objectives. We can help you to plan an appropriate course of action so please do contact us.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Raising Finance

Who needs finance?

Every business from its commencement and through its development and growth will need finance.

But what type of finance is best suited to the development of your business, and who should you approach for funding?

Planning for growth

Is finance required?

Finance is very often necessary but consider what it will entail. Additional funding requires a commitment in terms of capital and interest payments. Embarking on this course of action must therefore be planned carefully.

The business must be capable of sustaining any additional commitment to growth or expansion, and consideration will need to be given to effects on manpower, materials and space.

Tapping existing resources

Before seeking outside finance, a business must consider whether it could improve its working capital from within.

Particular attention should be given to stock and debtors to ensure that both are kept to a minimum. Consider how long it takes to bill customers and collect debts and look at ways to reduce this time.

If there are periods of time when surpluses of cash arise, review your affairs to try and ensure these are being used to generate income by investing on temporary short term deposits.

We can advise you on all these matters.

Business plan

Assuming external funding is necessary, planning is essential in achieving success. A well drawn up business plan not only crystallises in your own mind the nature of the project and the timing of any required funding, but is vital to any lending institution. They are unlikely to provide any assistance without a properly drawn up business plan.

The plan will include details of:

- the objectives and aims of the business
- the purpose of the required funding
- the business ownership and history
- management and responsibilities
- products and market share
- sales plan and strategy
- the financial position of the business with detailed cash flow forecasts and past accounts.

Types of finance

General

Finance is available in many forms, but it is important to make sure that it is right for your business. Onerous terms and inflexibility can often hinder a growing business.

The more obvious sources of finance include bank overdrafts and medium to long-term loans and mortgages, but rates of interest can vary considerably. Therefore we advise you to consult with us before making your final decision.

Specific

Specific methods of finance are available for acquiring assets or releasing cash from debtors. Carefully consider the options available which include:

- leasing assets
- hire purchase
- outright purchase
- debt factoring
- invoice discounting.

Each method of funding has advantages and disadvantages including implications for tax purposes.

Other

Other means of finance may be available for your business from government sources, through the issue of shares or even your own pension scheme.

Government assistance can be in the form of grants, loan guarantees or an enterprise capital fund. Other grants may be available on a regional or local level. The British Business Bank is a government owned company which aims to make finance markets work better for small businesses and works with partners such as banks, leasing companies and venture capital funds.

Raising finance by issuing shares may be another option to consider.

Security

Whatever form of finance is offered, the lender will always require some form of security. However the level of security sought may vary - beware the lender asking for unreasonable guarantees.

Fixed and floating charges

Most bank loans and overdrafts are secured by way of a fixed charge over land and buildings with floating charges over other assets of the company such as stock and debtors.

Personal guarantees

For some businesses little security may be available because of insufficient assets. Consequently the security will be given in the form of personal guarantees. Take extreme care before signing these guarantees as they can be difficult to amend at a later stage and many borrowers have suffered as a consequence. In particular, personal guarantees are best if they are limited by time or amount. Unlimited guarantees are the most dangerous.

General

It may be possible to use other assets as collateral such as life insurance policies or by taking a second mortgage over your home.

Whatever the means of security pledged, it should be carefully considered and advice sought.

How we can help

The means by which finance is obtained will vary enormously according to:

Accordingly whilst some generalisations apply, individual circumstances require specific consideration. Time invested in formulating a funding strategy, whilst not guaranteeing success, will provide a structure to guide the growing business.

Our experience and contacts can enable you to achieve the means to help your business grow.

We would welcome the opportunity to assist you in formulating a business plan and obtaining any necessary finance.

- the amounts required
- the nature of the business
- the risk exposure to the lender
- the period for which finance is required.

Nunn Hayward
Chartered Accountants

FACTSHEET

Recruitment Procedures – Seven Steps for Good Procedures

Nunn Hayward
Chartered Accountants

In order to avoid the danger of discriminating in some way, particularly unconsciously, employers must take care to develop and use recruitment procedures which will avoid the risk. Using sensible procedures will also inevitably improve recruitment decisions and the quality of the people taken on.

Professional advice should be sought before any action is taken.

Seven Steps

Sensible procedures would include the following:

1. Always produce **clear job descriptions** which identify both the essential activities of the job and the skills and attributes needed by candidates. It should be possible to see from this whether a disabled candidate would be able to deal with those essential activities. Avoid gender references such as he or she and only refer to qualifications and/or experience which are clearly required by the job. The danger is that any such attributes which cannot be shown to be essential could be inferred as being there to deter women, candidates from ethnic minorities or those with a disability.
2. In seeking candidates ensure that **any wording used does not imply that some category** (such as men or women) **are favoured candidates**, and be careful with words like energetic (unless this is a genuine requirement of the role) which might deter candidates with disabilities. The process for seeking candidates must also be non-discriminatory and not restricted in a way which could be seen to be discriminatory. An obvious error would be to put an advertisement in a place where it would only be seen by, for example, males (such as an all male golf club).
3. **Selection methods must be chosen** which will enable the appropriate skills and attributes to be assessed but should avoid anything which would in effect be discriminatory. An example could be written tests involving English comprehension for a basic cleaning job where the skills assessed by the test would be irrelevant. Where tests are used all candidates need to be given the same tests to avoid any suggestion of discrimination.
4. Be careful to **avoid discriminatory questions** at interview (eg when do you expect to have a family?) and generally try to ensure that all candidates are asked the same questions.
5. Do not ask candidates **health related questions** during the interview process or **before** an offer of a job is made, this would include questionnaires or general questions such as 'the number of days sickness during the last 12 months'. Enquiries as to whether any adjustments are required to enable candidates to attend an interview are permitted.
6. Consider **modifying the workplace** to make it suitable for candidates with disabilities - the code refers to a reasonable cost as being what the extra costs involved in recruiting a non-disabled person might be. You should also look critically at the physical arrangements for recruitment to assist candidates with disabilities to apply more easily (eg wheelchair ramps) and consider whether changes may need to be made to application forms. These should not ask questions which do not impact on the suitability of the candidate for the particular job and should not ask if a candidate is registered disabled.
7. It is essential that **good records** are kept for an appropriate period of time about applications, reasons for rejection and performance in any assessments and at interviews, and that these complement the job description and the skill requirements for the job. Obviously such processes help with selection anyway but these records may be essential if anything goes to an Employment Tribunal. The time limit for a candidate claiming discrimination is three months from the date of the last discriminatory act, which could be, for instance, when they were rejected or given feedback.

How we can help

We will be more than happy to provide you with assistance or any additional information required so please do contact us.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET

Recruitment Procedures - Employment Law

Most claims for discrimination in recruitment have no maximum limit. While discrimination claims remain uncapped, recent updates to employment tribunal compensation limits should be noted. As of April 6, 2025, the maximum compensatory award for unfair dismissal is £118,223, and the maximum basic award is £21,570.

Can your business afford compensation because you made a simple mistake?

How do you make sure you don't break the law?

We set out below the main principles involved in the recruitment of employees. We have written this factsheet in an accessible and understandable way but some of the issues may be very complicated.

Professional advice should be sought before any action is taken.

Good recruitment procedures

Employers recruiting staff can make simple but very expensive mistakes in all sorts of ways when trying to take on new staff. Sound recruitment procedures help avoid mistakes, as well as ensure that your recruitment process improves and you take on better staff as well.

Where can things go wrong?

You can easily make mistakes at various stages in the recruitment process that would probably mean you would lose your case at an Employment Tribunal.

These stages include:

- defining the job itself or identifying the person required
- attracting candidates by advertising
- how you assess the candidates you see
- making the actual selection decision
- the terms of employment that you offer.

The danger, quite apart from the cost of recruiting the wrong person and then having to get rid of them and recruit again, is that someone whom you have turned down at some point in the process may complain to an Employment Tribunal that you discriminated against them in accordance with the Equality Act 2010. If the Tribunal finds the claim to be valid then compensation can be awarded not just for actual loss but also to compensate for projected future loss and what is known as 'injury to feelings'.

Equality Act 2010

The Equality Act 2010 replaces all previous equality legislation, and covers age, disability, gender reassignment, race, religion or belief, sex, sexual orientation, marriage and civil partnership and pregnancy and maternity. These are now called 'protected characteristics'.

Discrimination

Discrimination occurs when someone is treated less favourably than another person because of their protective characteristic. There are four definitions of discrimination:

Direct Discrimination: treating someone less favourably than another person because of their protective characteristic

Indirect Discrimination: having a condition, rule, policy or practice in your company that applies to everyone but disadvantages people with a protective characteristic

Associative Discrimination: directly discriminating against someone because they associate with another person who possesses a protected characteristic

Perceptive Discrimination: directly discriminating against someone because others think they possess a particular protected characteristic

Acts of discrimination would involve either establishing different, unjustifiable and therefore discriminatory recruitment criteria or deliberately excluding certain categories, for example, 'men only may apply'. Indirect Discrimination is not as obvious (and indeed employers can find themselves committing indirect discrimination quite unintentionally and innocently).

Examples of indirect discrimination would include:

- setting recruitment criteria which are not actually justified by the job or job description but which have the effect of discriminating against certain groups of people (eg requiring exam qualifications suggesting skills which are not actually needed by the job and which could discriminate against individuals with learning difficulties)
- using assessment tests measuring abilities not required by the job but which could discriminate against groups of people (ie reasoning ability tests for unskilled manual jobs which could discriminate against those without English as a first language)
- setting different tests for different applicants for a job (eg female applicants cannot be asked to carry out tests of physical strength if male applicants are not asked to do the same)
- asking questions of some applicants and not of others (the classic and very common example being that of asking a female applicant when she intends starting a family).

In considering whether an act of indirect discrimination has occurred or not, an Employment Tribunal can draw reasonable inferences from an employer's normal practices in addition to looking at the facts of the particular case. The Tribunal members might for example, in the case of a claim for racial discrimination, look at the ethnic makeup of the existing workforce and compare this with the ethnic makeup of the local community. A significant difference between these proportions could suggest to the Tribunal that discrimination is more likely to have happened.

Possible but strictly limited exceptions where applicants can be chosen on grounds of sex, sexual orientation, religion, race or age.

Whilst direct and indirect discrimination are generally prohibited, the legislation accepts that in some occupations it may be necessary to be of a particular sex, sexual orientation, religion, racial group or age. These limited exceptions are referred to as being Genuine Occupational Reasons (GORs) (there are no such exceptions for disability). None of the legislation actually allows discrimination to be used to maintain a balance between the sexes, the religious or the racial mix.

If a discrimination claim is brought, the burden of proof is on the employer to prove there is a GOR. You must decide whether a GOR exists before advertising the job. All roles in an organisation must be considered separately; if there is a GOR relating to one role, it will not necessarily apply to all roles within the organisation.

GORs should be reviewed each time the job becomes vacant, as circumstances may change. If only a few tasks require that the employee has a particular characteristic, you should consider whether duties could be reallocated to other employees who do meet the requirement.

Examples of GOR's in relation to varying types of discrimination are as follows:

Sex

- physiology - for example in modelling
- decency or privacy - where there is likely to be physical contact between the job holder and persons of the opposite sex to which the latter might object such as lavatory attendants - care needs to be taken here if there are a number of posts meaning that such contact would not necessarily happen
- single sex establishments - such as prisons
- working outside the UK
- where a job involves living in and the premises which are available do not allow for appropriate privacy or decency - again care needs to be taken as the GOR will not be upheld if the employer could reasonably be expected to make suitable facilities available
- personal services such as welfare/personal/educational where these can best be provided by a man or woman - this GOR is used by social services and welfare providers.

Religion or belief

- A hospital wishes to appoint a chaplain to minister the spiritual needs of the patients and staff. The hospital is not a religious organisation but decides a chaplain ought to have a religion or similar belief. The hospital may be able to show that it is a GOR within the context of the job for the post holder to have a religion or similar belief.
- A Christian school may be able to show that being a Christian is a requirement of the teachers whatever subject they teach.

Sexual orientation

A scenario where a business is advertising an opportunity to work in a middle eastern country. Because gay sex (even between consenting adults) is criminalised in that country, the business may be able to demonstrate it is a GOR for the person taking the job not to be gay, lesbian or bisexual.

Age

Where there is a requirement for a position as an actor for an old or young part.

Race

- dramatic performance where an individual of a particular ethnic background is required
- authenticity such as the requirements for a particular modelling assignment
- providing welfare services to people of a particular racial group, where services can most effectively be provided by a member of the same racial group due to their understanding of cultural needs and sensitivities.

Positive discrimination

Since April 2011 Section 159 of the Equality Act 2010 permits employers to treat individuals with a protected characteristic more favourably than others in connection with recruitment or promotion. This applies only to candidates of equal merit and the more favourable treatment must enable or encourage an individual to overcome or minimise a disadvantage or participate in an activity where he or she is under-represented in that activity.

Disability

The definition of what constitutes a disability can be split into three parts:

- the employee must be suffering from a physical or mental impairment
- the impairment must have a substantial effect on the ability to carry out normal day-to-day activities, which would include things like using a telephone, reading a book or using public transport. Substantial means more than minor or trivial
- the effect must be long-term, in other words have already lasted for at least 12 months or be likely to last that long.

The Equality Act 2010 includes new protection from discrimination arising from disability. This includes indirect discrimination, associative discrimination and discrimination by perception.

The meaning of disability

The Equality Act 2010 covers discrimination against disability which insists that employers may not treat a person with a disability less favourably than other persons without justifiable reasons. However, this does not apply if an employer shows that they did not know, and could not reasonably have been expected to know, that a disabled person had the disability.

The Act requires employers to make 'reasonable adjustments' to the workplace where these would overcome the practical effects of an individual's disability. If an applicant for a position believes that he/she has been discriminated against they may make a complaint to an Employment Tribunal.

What are 'reasonable adjustments'?

In this context the word reasonable means whether or not such steps would be practicable and would actually have an effect, and are reasonable given the resources of the employer. For example, the local branch of Marks & Spencer would probably be expected to have more resources than would a small local retailer.

Reasonable adjustments to the workplace that employers might be expected to make include:

- making adjustments to interview/selection process such as allowing extra time for assessments
- transferring the individual to fill another vacancy or to a different place of work
- altering working hours
- allowing them time during working hours for rehabilitation or treatment
- allocating some duties to another person
- arranging for special training
- acquiring or modifying premises, equipment, instructions or manuals
- providing readers or supervision.

Claims against employers for discrimination

Applications can be made to an Employment Tribunal from someone who was not selected for an initial interview, for a final short-list or offered the job, and who believes it was because of age, disability, gender reassignment, race, religion or belief, sex, sexual orientation, marriage and civil partnership, trade union membership or lack of such membership. The application must be made within three months of the alleged discrimination and the Tribunal will take into account reasonable inferences from the actual employment practices of the employer as well as from the particular facts of the individual case.

How we can help

We will be more than happy to provide you with assistance or any additional information required so please do contact us.

Nunn Hayward
Chartered Accountants

FACTSHEET
Redundancy Procedures

An employee's employment can be terminated at any time but unless the redundancy is fair an Employment Tribunal may find the employer guilty of unfair dismissal.

We set out below the main principles involved concerning the redundancy of employees. We have written this factsheet in an accessible and understandable way but some of the issues may be very complicated.

Professional advice should be sought before any action is taken.

What is redundancy?

Under the Employment Rights Act 1996, redundancy arises when employees are dismissed because:

- the employer has ceased, or intends to cease to carry on the business for the purposes of which the employee was so employed; or
- the employer has ceased, or intends to cease, to carry on the business in the place where the employee was so employed; or
- the requirements of the business for employees to carry out work of a particular kind has ceased or diminished or are expected to cease or diminish; or
- the requirements of the business for the employees to carry out work of a particular kind, in the place where they were so employed, has ceased or diminished or are expected to cease or diminish. This may occur where the employee, whose job is redundant, is reallocated to another employee's job for which they have the necessary skills. The employee whose job remains is 'bumped' out of a job by the person whose job became redundant.

In other words, the business reasons for redundancy do not relate to an individual but to a position(s) within the business.

Consultation - legal requirements

Employers who propose to dismiss as redundant 20 or more employees at one establishment, or across more than one establishment, have a statutory duty to consult representatives of any recognised independent trade union, or if no trade union is recognised, other elected representatives of the affected employees by collective consultation.

Consultation should begin in good time and must begin:

- at least 30 days before the first dismissal takes effect if 20 to 99 employees are to be made redundant over a period of 90 days or less
- at least 45 days before the first dismissal takes effect if 100 or more employees are to be made redundant over a period of 90 days or less.

Employees on a fixed-term contract which come to a natural end will be excluded from collective redundancy. However, where such a contract is being terminated early because of a redundancy situation the exemption will not apply.

Employers also have a statutory duty to notify the Redundancy Payments Service (RPS) if they propose to make 20 or more workers redundant at one establishment or across more than one establishment over a period of 90 days or less.

If an employer fails to consult, a Tribunal has discretion to make a protective award of up to 90 days' pay.

It is good practice in all organisations, regardless of size and number of employees to be dismissed, for employers to consult with employees or their elected representatives at an early enough stage to allow discussion as to whether the proposed redundancies are necessary at all. Then they should ensure that individuals are made aware of the contents of any agreed procedures and of the opportunities available for consultation and for making representations. It must be remembered that redundancy is a form of dismissal and although it is not a requirement to follow a disciplinary and dismissal procedure which satisfies the requirements of the ACAS Code of Practice, namely to include a letter setting out the reasons for the potential redundancy, a meeting and an appeal process, it is best practice to do so.

Disclosure of information

Employers have a statutory duty to disclose in writing to the appropriate representatives the following information so they can play a constructive part in the consultation process:

- the reasons for the proposals

- the number and descriptions of roles it is proposed to dismiss as redundant
- the total number of employees of any such description employed at the office in question
- the way in which employees will be selected for redundancy
- how the dismissals will be carried out and over what timescale
- the method of calculating the amount of redundancy payments (other than statutory redundancy pay, if any) to be made.

To ensure that employees are not unfairly selected for redundancy, the selection criteria should be objective, fair and consistent. They should be agreed with employee representatives and an appeals procedure should be established.

Examples of such criteria include attendance and live disciplinary records, experience and capability. The chosen criteria should be measurable and consistently applied. Non-compulsory selection criteria include voluntary redundancy and early retirement, although it is sensible to agree management's right to decide whether or not such an application is accepted or not.

Employers should also consider whether employees likely to be affected by redundancy could be offered suitable alternative work within the organisation or any associate company. Priority protection is given to those on maternity, adoption or shared parental leave, and from 1 April 2024 this extended to pregnant employees and to cover a period of 18 months from the child's date of birth. Any suitable alternative vacancies must be offered to the employee as a priority.

Employees who are under notice of redundancy and have been continuously employed for more than two years qualify for a reasonable amount of paid time off to look for another job or to arrange training.

Unfair selection for redundancy

An employee will be deemed to have been unfairly selected for redundancy for the following reasons:

- participation in trade union activities
- carrying out duties as an employee representative for purposes of consultation on redundancies
- taking part in an election of an employee representative
- taking action on health and safety grounds as a designated or recognised health and safety representative
- asserting a statutory employment right
- by reasons of discrimination
- maternity-related grounds.

The right to a redundancy payment

Employees who have at least two years' continuous service qualify for a redundancy payment.

The entitlement is as follows:

- For each complete year of service until the age of 21 - half a week's pay
- For each complete year of service between the ages of 22 and 40 inclusive - one week's pay
- For each complete year of service over the age of 41 - one and a half weeks' pay.

A week's pay is that to which the employee is entitled under his or her terms of contract as at the date the employer gives minimum notice to the employee. The maximum statutory limit for a week's pay is £700 (£729 in Northern Ireland) from 6 April 2024, and the maximum service to be taken into account is 20 years. This means that the maximum statutory payment cannot exceed 30 weeks' pay or £21,000 (£21,870 in Northern Ireland). Employers may, of course, pay in excess of the statutory minimum.

The employee is also entitled to a period of notice or payment in lieu of notice by statute and their contract of employment.

How we can help

We will be more than happy to provide you with assistance or any additional information required so please do contact us.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Register of People with Significant Control

All companies (except certain listed companies) are required to keep a register of people with significant control (PSC register) and file relevant information at Companies House. This requirement is in addition to those in respect of existing registers.

The requirement to keep a PSC register has the objective of increasing transparency over control and ownership of UK companies. However, this places additional obligations on companies, their officers and the people with significant control over them.

What are the requirements?

The requirements include:

- taking reasonable steps to find out whether there are people with significant control (PSCs)
- contacting people identified as relevant, or others who may know them, to confirm whether they are a PSC
- obtaining or confirming relevant information to put in the PSC register
- putting information obtained into the PSC register
- keeping the PSC register up to date.

Changes to the information on persons of significant control must be updated on the company's own register within 14 days and notified to Companies House within a further 14 days. Regardless of any changes companies must also confirm, through their annual confirmation statement, that the information about their PSCs, as held on the central register, is correct. From 8 April 2025, anyone wishing to update the register with Companies House will need to verify their identity, either directly with Companies House or via an Authorised Corporate Services Provider (ACSP).

If at any time the company is aware that the information on the PSC register needs to change, but the relevant information has not yet been confirmed, the register must be updated to show the date from which the information was no longer correct and the status of the investigation into the new PSCs.

What is meant by a PSC?

A PSC is defined as an individual that meets on or more of the following conditions:

- holds, directly or indirectly, more than 25% of the shares or voting rights in the company
- holds the right, directly or indirectly, to appoint or remove a majority of the board of directors of the company
- has the right to exercise, or actually exercises, significant influence or control over the company
- where a trust or firm would satisfy any of the above conditions, any individual that has the right to exercise, or actually exercises, significant influence or control over the activities of that trust or firm.

A company must take reasonable steps to identify its PSCs. Some companies may have no PSCs or find it easy to ascertain who the PSCs are, but others may have to carefully follow all the steps laid out to try to establish if there are any PSCs and, if so, their identity and details.

In some cases a company is owned or controlled by a legal entity, rather than an individual. Details of relevant and registrable legal entities must also be put on the PSC register. An entity that owns or controls a company is relevant if it keeps its own PSC register or has voting shares admitted to trading in certain markets (eg it is listed on the London Stock Exchange).

What information is required to be kept on the register?

The PSC register must be kept, and it cannot be blank! Where, for example, a company is in the process of obtaining information or confirming, a specific statement to that effect is required by law to be made in the PSC register.

New information must be entered on your company's PSC register within 14 days and filed with Companies House within a further 14 days. Failure to comply with these requirements is a criminal offence.

The particulars of a relevant individual that are required to be obtained and confirmed for inclusion in a company's PSC register include:

- their name
- their date of birth
- their nationality
- the country, state (or part of the UK) in which the PSC usually resides
- a service address
- their usual residential address (if different to the service address)
- the date on which the individual became a PSC in relation to the company
- the nature of the PSC's control over the company using the official wording
- any restrictions on disclosing the PSC's information that are in place.

A specific statement is also required in the PSC register if you believe the company has no PSCs.

Information about a PSC must be confirmed before you enter it on the PSC register. Information can be treated as confirmed if the PSC:

- supplied the information or was aware the information was being provided
- has been asked to confirm that the information is correct and has done so
- has previously confirmed the information and there is no reason to believe it has changed.

Do PSCs have any obligations?

There are a number of legal obligations on a PSC. For example, a relevant individual that does not respond to requests for PSC information may be committing a criminal offence. A company is also entitled to apply restrictions to shares or rights in the company held by the individual who is not responding.

Is information held on the PSC register publicly available?

Almost all of the information on the central PSC register is available to the public. The only information that will not be available is the PSC's usual residential address (unless this has been supplied as the service address) and the day of the PSC's date of birth. The PSC register that you keep must be available for public inspection, but you should not provide the usual residential address of any PSC when it is inspected or a copy is requested.

If you choose to keep your PSC register only at Companies House then all of the information that would otherwise appear in the company's PSC register will be available publicly. This means your PSC's full date of birth will appear, but the residential address will still be suppressed.

In exceptional circumstances (where there is a serious risk of violence or intimidation) there is a regime for suppressing all information relating to the PSC from the PSC register and the central register for public inspection or for preventing their residential address being shared with credit rating agencies.

Of course all of the information will be available to law enforcement agencies and Companies House will supply information regarding residential addresses and dates of birth to credit reference agencies and certain public authorities in certain circumstances.

What happens if the company does not comply with the requirements?

Failure to comply with the requirements of the PSC regime could lead to the company or directors, or identified PSCs committing a criminal offence. The company and its directors could face a fine or imprisonment, or both.

In this regard it should be noted that under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (as amended) those in the regulated sector for anti-money laundering purposes, such as accountants or solicitors, have a duty to inspect a company's PSC register and report any discrepancies in beneficial ownership to Companies House.

Is further guidance available?

The Department for Business, Energy & Industrial Strategy has issued a significant amount of additional information in the form of summary, statutory and non-statutory guidance in this area. This guidance contains, for example, further detail of the requirements and processes involved at various stages of keeping the PSC register, official wording for entering on the PSC register and example notices relating to obtaining and confirming PSC information.

The guidance can be obtained from www.gov.uk/government/organisations/companies-house.

How we can help

These requirements may give rise to a complicated set of obligations for you and your company.

If you would like to discuss these requirements in more detail, or require assistance with this or other company secretarial requirements, please contact us.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Research and Development

01753 888211 | info@nhllp.com | www.nhllp.com

A new merged Research and Development (R&D) scheme has been introduced, replacing both the current SME and R&D Expenditure Credit (RDEC) regimes. The changes apply to accounting periods beginning on or after 1 April 2024.

A new set of rules makes aid available to most companies, in the form of a payable credit calculated by reference to expenditure on R&D. A second set of rules makes aid available to SMEs that invest heavily in R&D, in the form of an adjustment of profits or losses for Corporation Tax purposes, calculated by reference to expenditure on R&D and, where that adjustment produces or contributes to a trading loss, a payable credit calculated by reference to that loss.

The new RDEC

The RDEC allows the company to claim a taxable credit of 20% for expenditure incurred on eligible expenditure. As this amount is taxable it is also known as an 'above the line' credit. The credit received must be used to settle Corporation Tax liabilities of the current, future or prior periods subject to certain limitations and calculations. Where there is no Corporation Tax due the amount must be used to settle other tax debts and may then be able to be repaid.

There are broadly three categories of qualifying R&D expenditure which may qualify for R&D:

- In-house expenditure - incurred on staffing costs; on software, data licences, cloud computing services or consumable items; is qualifying expenditure on externally provided workers.
- Expenditure attributable to relevant R&D contracted out by the company.
- Expenditure attributable to relevant R&D contracted out to the company broadly by a non-taxpayer.

Relief for loss-making, R&D-intensive SMEs

The existing SME rules are used as the basis for the new relief for companies that are SMEs, invest heavily in R&D and do not make associated trading profits. This provides relief in the form of an additional deduction where the investment is made in the course of a loss-making trade i.e. 186% relief. These rules are amended to add new conditions, namely that:

- The company meets the R&D intensity condition in the period or obtained relief under the R&D-intensive rules for its most recent prior accounting period of 12 months' duration, having met the R&D intensity condition in that period.
- The company makes a loss in the trade in the period.

Broadly, the company meets the condition if its relevant R&D expenditure for the period amounts to at least 30% of its total relevant expenditure for the period.

Where the conditions are met, a repayable credit of 14.5% may be due but this repayment is subject to a number of detailed restrictions.

The qualifying expenditure brackets mirror the three categories detailed above under the RDEC scheme.

Qualifying projects

R&D relief can only be claimed by companies that have incurred expenditure on qualifying R&D projects that are relevant to the company's trade. A project should address an area of scientific or technological uncertainty and be innovative. The innovation needs to be an improvement in the overall knowledge in the relevant field of research, not just an advancement for the company.

An important point to appreciate is that the activity does not have to create something completely new from scratch. It could include:

- Developing a product that exists but where there is some technological uncertainty which can be improved.
- Making an appreciable improvement to a product or process e.g. exploring new cost-effective materials which will allow a product to perform better.

Companies should document the uncertainties and planned innovation at the start of a project to provide evidence to support an R&D claim.

Once the company is comfortable that R&D is taking place, then the next step is to identify the activities of the business that relate to the R&D activity.

There are essentially two types of activities:

- those that contribute directly to achieving the advancement
- certain activities that indirectly contribute to achieving the advancement.

Examples of direct activities are:

- scientific or technological planning
- scientific or technological design, testing, and analysis
- activities which design or adapt software, materials or equipment.

Examples of indirect activities are:

- information services e.g. preparation of R&D reports
- indirect supporting services to the R&D project e.g. maintenance, security, clerical
- ancillary services e.g. leasing laboratories and equipment.

Indirect activities all have to be undertaken for the R&D project.

The R&D project begins when the work to resolve the scientific or technological uncertainty starts and ends when that uncertainty is resolved. It is therefore beneficial for companies to keep a timeline of activities and their purposes to detail when the business starts to move into the production phase to optimise their claims.

Claiming relief

If a company has not previously claimed R&D relief, or not claimed within the last three years, then it must notify HMRC within six months of the end of the accounting period in relation to which that R&D is incurred.

In addition, for any company wishing to claim relief, claimants must provide additional information to support a claim before filing the Corporation Tax return. If this information is not supplied the claim will be invalid.

How we can help

As can be seen, the R&D regime is complex. Please contact us to discuss your circumstances if you feel that you are undertaking R&D.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Running a Limited Company

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

Running a limited company presents a range of unique challenges and responsibilities. A limited company is a separate legal entity and the finances of a limited company are separate to the finances of the individual shareholders and directors. Limited companies are subject to reporting and financial responsibilities and the directors of the limited company have their own duties and responsibilities.

Here we outline what owners (the shareholders) should be aware of in order to successfully run their company.

Administration

Shareholders

Companies which are limited by shares are usually businesses which set out to make a profit. The shares are owned by the shareholders (who can be individuals, another company or an institution) who must own at least one share of the company. A shareholder invests money in the company by buying shares and has the potential for sharing in the profits of the company. The liability of shareholders is limited to the value of their share capital (including any unpaid part).

The shares issued to the shareholders are decided upon and noted in the Memorandum of Association, which is the initial document setting up the company. The type of shares or the 'class' is recorded together with what rights the shares give to each of the shareholders. This could be the amount of dividend to be paid, if the shares can be redeemed (exchanged) for cash, if the share gives a right to vote on company matters and how many votes each share receives.

The rules for operating the company are contained in the Articles of Association.

When a company is formed the Memorandum and Articles of Association are produced and completed by the initial shareholders.

Dividends

Dividends are paid from the profits of the company once the tax liability has been met. Dividends can be paid at a different rate on the different types of shares issued by the company. They can either be paid as a final dividend after the year end, or can be paid as an interim dividend in advance of the final profits being established, however it is a legal requirement for the profits of the company to be sufficient to pay these dividends after allowing for the corporation tax liability.

Dividends are income for the shareholders and are subject to the shareholders' individual tax rates, depending on the shareholders' own individual circumstances.

Limited liability

A company normally provides limited liability. If a shareholder's shares are fully paid they cannot normally be required to invest any more in the company. However, banks may require personal guarantees from the directors for borrowings. The advantage of limited liability will generally apply in respect of liabilities to other creditors.

Legal continuity

A company will enjoy legal continuity as it is a legal entity in its own right, separate from its owners (the shareholders). It can own property, sue and be sued.

Directors

A director can be involved from the start in establishing a new company or appointed to the Board of a company. A director is an officer of the company with extensive legal responsibilities. The Companies Act 2006 sets out a statement of general duties.

The legislation requires that directors act in the interests of their company and not in the interests of any other parties (including shareholders). Even sole director/shareholder companies must consider the implications by not putting their own interests above those of the company.

The Companies Act 2006 outlines seven statutory directors' duties:

- Duty to act within their powers - in accordance with the company's constitution.
- Duty to promote the success of the company.

- Duty to exercise independent judgment.
- Duty to exercise reasonable care, skill and diligence.
- Duty to avoid conflicts of interest.
- Duty not to accept benefits from third parties.
- Duty to declare interest in a proposed transaction or arrangement.

Where a company director's income is all taxed at source there is no need for them to file a self assessment tax return, providing earnings are less than £150,000.

Companies House Reform

As of 8 April 2025, company directors will be required to verify their identity in order to file accounts with the registrar or otherwise interact with Companies House. This can be done directly with the registrar or via an Authorised Corporate Services Provider (ACSP).

Company secretaries

Since April 2008, unless there is an express requirement in the company's articles of association, the Companies Act 2006 no longer requires private limited companies to appoint a company secretary. Even if the articles do require it, it is relatively straightforward for the directors of a company to amend the provision, subject to shareholder agreement.

The important tasks that would normally fall to a company secretary, including shareholder administration and communication, corporate governance and statutory compliance, must still be done. In the absence of a company secretary, company law states that directors must take on this responsibility.

The company should inform Companies House of the resignation of any existing company secretary.

Maintaining statutory registers

All companies must maintain up-to-date registers of key details. These include:

- register of directors (including residential addresses)
- register of shareholders and company secretaries (if applicable)
- minutes of board meetings, including results of any shareholder votes and resolutions
- register of debentures
- details of indemnities
- details of transactions when someone buys shares in the company
- register of mortgages and charges secured against the company's assets
- register of People with Significant Control (anyone who has more than 25% shares or voting rights in the company, can appoint or remove a majority of directors or has the right to exercise, or actually exercises significant influence or control the company).

The registers must be made available for inspection by the general public at the company's registered office or at a single alternative inspection location (SAIL), which must also be recorded at Companies House.

Accounting records

All companies must also keep accounting records, including:

- all money received and spent by the company
- details of assets owned
- debts that the company is owed or owes
- stock owned by the the company at the end of the financial year (including stocktaking used to work out the stock figure)
- all goods bought and sold, and who they were bought and sold to and from (unless the company runs a retail business).

Financial records, information and calculations needed to prepare annual accounts and the company tax return are also required to be kept. This includes:

- all money spent by the company (e.g. receipts, orders and delivery notes)
- all money received by the company (e.g. invoices and till rolls)
- any other relevant documents (e.g. bank statements and correspondence)

If accounting records are not kept, a fine of £3,000 can be issued by HMRC or disqualification of company directors.

There is a requirement for a company to prepare financial statements and for tax purposes a requirement to maintain accounting records for six years from the end of the last company financial year they relate to, or longer if they show a transaction that covers more than one of the company's accounting periods, the company has bought something that it expects to last more than six years, like equipment or machinery, the company tax return was filed late or HMRC started a compliance check into the company tax return.

Confirmation statement

A confirmation statement (previously annual return) must be filed annually with the Registrar of Companies to ensure that the company information is correct and up to date. The confirmation statement can be used to report changes to specific company details such as the statement of capital and shareholder information.

Non-compliance can lead to penalties of up to £5,000, disqualification of company directors and the company may be struck off.

Penalties

The Companies Act 2006 provides for the Registrar of Companies to charge penalties and fines, including a penalty of between £150 and £7,500 for the late filing of accounts (the amount depends on the status of the company and the degree of lateness and is doubled if late for two successive years).

Failure to file confirmation statements or accounts is a criminal offence which can result in directors being fined personally in the criminal courts.

Insurance

Insurance cover should be reviewed for Public Liability, Professional Indemnity and if the company takes on staff, Employers' Liability.

Taxation

PAYE, NICs and employing staff

For the directors of the company who receive a salary it will be necessary to register for a Pay As You Earn (PAYE) scheme and the payments made will need to be considered for deduction of PAYE tax, National Insurance contributions (NICs) and pensions auto-enrolment.

If the company employs staff members, they will be paid on a regular basis and along with PAYE tax, NICs and pensions auto-enrolment deductions from their wage, the company as an employer will potentially be required to pay an employers' NIC and pensions auto-enrolment contribution.

The company directors and employees are able to receive benefits-in-kind from the company (for example company cars and private medical insurance). Most benefits are subject to income tax and the company will have to meet an extra charge of NICs on the value of the benefits. Special rules apply to company directors who receive loans from the company at no or beneficial rates of interest.

VAT

VAT is a tax charged when a VAT registered business sells its goods or services. The company collects this tax and pays it over to HMRC typically on a quarterly basis. The company may also pay VAT on items purchased and in some circumstances can deduct the VAT it has paid from the VAT it has collected from customers.

A company must register for VAT within 30 days of the end of any month, when the total VAT taxable turnover for the last 12 months was over the VAT threshold, or if you expect turnover to go over the VAT threshold in the next 30 days. The VAT threshold for 2025/26 is £90,000.

Corporation tax and self assessment (CTSA)

The company will be subject to corporation tax.

The main rate of corporation tax is 25% for companies with profits over £250,000. Companies with profits of £50,000 or less pay corporation tax at 19%. Companies with profits between £50,000 and £250,000 will pay tax at the main rate reduced by a marginal relief, providing a gradual increase in the effective corporation tax rate.

CTSA key features

- A company has to calculate its own corporation tax liability.
- A company is required to pay the tax due in advance of filing a tax return.
- A 'process now, check later' enquiry regime applies when the tax return is submitted.
- The inclusion in the tax return of the liabilities of close companies on loans and advances to shareholders and others, and of liabilities under Controlled Foreign Companies legislation.
- The requirement for companies to self assess by reference to transfer pricing legislation.

Notice to file

Every year, HMRC issues a notice to file to companies. In most cases, the return must be submitted to HMRC within 12 months of the end of the accounting period.

Companies must file their corporate return online. Their accounts and computations must also be filed in the correct format - inline eXtensible Business Reporting Language (iXBRL).

Penalties

Penalties apply for late submission of the return of £100 if it is up to three months late and a further £100 if the return is over three months late. Additional tax-geared penalties apply when the return is either six or 12 months late. These penalties are 10% of the outstanding tax due on those dates.

Submission of the return

The return required by a notice to file contains the company's self assessment, which is final, subject to:

- taxpayer amendment
- HMRC correction; or
- HMRC enquiry.

The company has a right to amend a return (for example changing a claim to capital allowances). The company has 12 months from the statutory filing date to amend the return.

HMRC has nine months from the date the return is filed to correct any 'obvious' errors in the return (for example an incorrect calculation). This process should be a fairly rare occurrence. In particular the correction of errors does not involve any judgement as to the accuracy of the figures in the return. This is dealt with under the enquiry regime.

Payment

Payment of the corporation tax liability must be made by the due date, which is usually nine months and one day after the end of the accounting period. Interest is charged on the late payment of corporation tax.

How we can help

We would be very pleased to discuss any matters relating to the running of your limited company with you. Please get in touch to find out how we can help.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Securing Business Success

As many as half of all businesses fail in their first three years of trading. A contributor to ensuring business success and avoiding failure is to know your enemies.

Generally the main reason for the high failure rate of small newly established businesses is when the owner lacks experience in managing all aspects of the business. Interestingly, new businesses appear to survive better in economic downturns than older more established businesses. This may be because they are more adaptable to change, or possibly perhaps they were set up in the recession and therefore were not surprised by the sudden weakening in trading conditions.

There are many more specific reasons for business failure.

Common reasons cited by many owner managers for business failure

Increased competition from larger businesses

Competition from larger businesses can cause problems as they make use of their size and buying power to reduce costs and therefore selling prices to levels which smaller businesses simply cannot compete against.

As a small business, one of the best ways to protect against this threat is to carry out industry research to ensure that you know who your competitors are, what size they are in relation to your business, and what support network they have, such as whether they are part of a large group.

As a business owner, you need to identify the threats that competitors pose to your business and try to mitigate those threats by developing your strengths against the weaknesses of the competitor.

For example, a small local grocery shop may be under threat from a large supermarket chain opening a store on the edge of town. It would be unrealistic to consider trying to compete on price so the grocer needs to differentiate their business from that of the superstore by building on the strengths it has, such as:

- focusing on local produce from local suppliers
- offering a personal service and knowing customers and their families by name
- introduce a local delivery service where goods can be ordered by phone rather than online
- order in specific goods for customers with special requirements.

Lack of sales

A lack of sales is not only a particular problem for a new business but can also apply when new product lines or services are introduced in existing businesses.

Carrying out market research will help to eliminate as many problems as possible in the early stages. By researching the target market and local conditions, inappropriate products or incorrect pricing should be identified and corrected before, or soon after, the business commences.

Market research is an expense which many business owners try to avoid, but it can provide valuable information and prove to be cost effective. It may even be possible to conduct your own market research surveys rather than paying an expensive agency to do it on your behalf.

For example you could visit local businesses which you may want as your customers to canvass opinion on your product, or if your target market is made up of consumers, you could survey shoppers in the local town centre.

Gaining credibility for a business venture can be extremely difficult and so market research is important to assist in obtaining finance for the business.

To protect your business against loss of customers, you should try to have a mixed range of customers, in different industries and avoid over reliance on just one or a few key customers. By doing this, your business will be naturally protected against one customer going bust, or a dip in a particular industry.

Failing to keep up with technological advances in your market can also lead to lack of sales, as your business loses out to more up to date products sold by competitors. It is imperative to stay up to date for the sustainability of the business unless you choose to operate in a specialist niche market, which may have a finite life or limited market.

Poor cashflow

Poor cashflow is a key problem for many owner managed businesses as many owner managers tend to have good knowledge in their field but little experience of managing other aspects of the business, including cashflow.

It is important to ensure that the business has enough working capital to meet day to day cashflow requirements.

Day to day cashflow can be improved by:

- making sure the business is not carrying too much stock, particularly old or slow moving stock
- having disciplined credit control procedures to chase up overdue debts
- undertaking credit checks on new customers before offering credit facilities.

Common reasons cited by many professional advisers for business failure

Lack of monitoring of performance and results

Many small businesses do not prepare management accounts, so the only time they review the results of their business is when the year end accounts are prepared, which is typically at least six months after the year end. Year end accounts do not carry much detail which means that the business is often lacking in detailed information. Consequently a business cannot use this for comparisons to actual and expected performance.

All businesses should carry out reviews of their results periodically during the year, and compare the actual results to last year and expected figures. This will help to identify any potential problems so that corrective action can be taken on a timely basis.

Turnover instead of profit led

It is easy for business owners to focus on sales growth and be over optimistic about the level of sales which can be achieved, especially in the early years. Very few such entrepreneurs actually have any solid facts behind their projected turnover figures. As previously mentioned, market research is very important to ensure that the expected market share is realistic.

Many business owners also tend to focus on trying to increase sales, instead of focusing on controlling costs and increasing profits.

As a business owner you must put together a proper budget to ensure that all costs are covered. Typical errors made include setting sales prices based on the direct costs of the product and not including any of the overheads of the business such as rent and rates.

Preparing an annual business plan to include a forecast profit and loss account can help to identify all potential costs to ensure they are considered when calculating selling prices. This will also give you a valuable measurement tool to compare with the actual performance of the business.

Taking too much out of the business

Some business owners like to take large amounts out of their business, either by way of drawings, salaries, bonuses or dividends. If your business is struggling it may be worth reviewing personal drawings and reducing them for a short period, to help the long term viability of the business.

It is better to have lower income from a sustainable business than higher income over a short term.

Other issues

Taxation

Some businesses struggle to meet their tax liabilities on time. The Business Payments Support Service provided by HMRC allows a business to negotiate 'time to pay arrangements' across the various taxes. However, this service is only offered to businesses who are likely to be able to pay their tax liabilities if they are given more time to pay and not to those which can no longer feasibly pay at all.

Therefore, if your business is struggling to meet its tax liabilities, it may be worth contacting the service to see if you can agree a time to pay arrangement before matters reach a crisis level.

Management skills

Management skills are necessary to develop a strategy and to train and manage people. Owner/managers are usually specialists in the product and services their business offers, so issues are dealt with on a day to day basis.

These individuals often have a passion for their business however they may not possess expertise in the area of management and, as a result, long term planning is neglected. It may be worth investing in a training session or online course to develop management skills to obtain the best results from your staff.

A happy, motivated workforce can drive the success of a business.

It is especially important to have the right people in key roles within your business, so you must consider how to retain them within the business over the long term.

Every business should also have a 'succession plan' in place to cover roles if a key person leaves. This helps the business to survive when it loses a key member of staff, whether permanently or temporarily if for example, they are off sick for a long period.

If a business is being run single-handedly by the owner/manager, you should have a succession plan and insurance in place in case of personal emergencies.

Legislation

Small businesses often do not have the necessary in house expertise to ensure compliance with legislation for issues such as employment law, health and safety law and environmental standards.

Complying with all the legislative requirements can be a major problem for the small business. Form filling and staying up to date with all of the changes is unlikely to be a priority for the owner, and yet it is essential if the business is to survive and continue successfully. Occasionally new legislation can remove a market or actually make it too costly to continue to serve it.

This can lead to costly consultancy fees for the business. Unfortunately, it is difficult to avoid these fees for complex issues.

There are government agencies which offer free, impartial support to businesses, such as Acas which offers advice regarding employment issues. Health and safety information can be found on the internet and consultants may only be needed if trading in a high risk environment.

Location

The choice of location can have a big influence on your business. If your business depends on customers visiting the premises, it must be based somewhere which is easily accessible for customers, and not somewhere which is too remote or in a bad area. If the business depends on passing traffic, such as a shop, it must be situated somewhere with a lot of people passing on foot or with easy parking.

Finance and business plans

It can be difficult to obtain financing for a business or even to keep your existing facilities.

When applying for finance it is very important to submit a business plan to demonstrate the viability of your business and lend credibility to your application. This business plan should include forecast financials (profit and loss account, cashflows) as well as market research backing up your sales figures.

Even if you do not require finance, it is a good idea for any business to prepare a business plan. This will give the business a strategic direction and something to monitor actual results against.

Planning is extremely important. It can be said that 'failing to plan, is planning to fail'. The business plan should include external and internal issues to see if the owner/manager can cope with the potential 'worse case scenario' that could arise. Comprehensive discussions with an adviser can prevent (or at least highlight) a wide range of problems and methods of minimising or overcoming their impact.

When things go wrong

It can be extremely difficult and traumatic to face up to the failure of your own business. Many owners are tempted to bury their heads in the sand and hope that things will somehow improve. However, the best way to get things to improve is to face up to the fact that the business is struggling as soon as possible - the earlier you identify there is a problem, the earlier you can take remedial action to try to save the business before it is too late. If you think that your business is struggling, seek help and advice immediately.

Nunn Hayward
Chartered Accountants

How we can help

There are undoubtedly many advantages to securing business success.

We are able to assist you in the areas where businesses generally fail and assist in ensuring that you have the right mix of skills suitable to making your business a success.

We can assist with preparing management accounts, cashflow forecasts and finance and business plans and, if things go wrong we can assist with remedial action.

If you would like to discuss these procedures any further please contact us.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Seed Enterprise Investment Scheme

The Seed Enterprise Investment Scheme (SEIS) provides tax relief for individuals prepared to invest in new and growing companies. It is the junior version of the Enterprise Investment Scheme (EIS). Investors can obtain generous income tax and capital gains tax (CGT) breaks for their investment and companies can use the relief to attract additional investment to develop their business.

Key features

The key features of the relief can be summarised as follows (figures are those applicable from 6 April 2024):

- a qualifying investor will be able to invest up to £200,000 into qualifying companies in a tax year
- they will receive income tax relief of up to 50% of the sum invested
- unused relief in one tax year can be carried back to the preceding tax year if there is unused relief available for that year
- the maximum amount that a company can attract in investment qualifying for the SEIS is £250,000 in total
- the company must not have assets of more than £350,000 before any SEIS investment
- an individual who makes a capital gain on another asset and uses the amount of the gain in making a SEIS investment will not pay tax on 50% of the liability, subject to certain conditions
- there is a huge amount of anti-avoidance legislation to prevent exploitation for tax avoidance purposes.

Who can invest?

The official term is a 'qualifying investor'. The primary requirement is that the investor or someone who is associated with them must not be an employee of the company in which the investment is being made. They can however be a director. They must also ensure that they do not have (directly or indirectly) a substantial interest in the company. This is defined by reference to holding more than 30% of any of the following (in either the company itself or a 51% subsidiary of the company):

- ordinary shares
- issued shares
- voting rights
- assets in a winding up.

Which shares qualify?

The shares must be ordinary shares which have been subscribed for wholly in cash and are fully paid up. They must be held for a three-year period from the date of issue. The company must have issued the shares for the purpose of raising money to fund a qualifying business activity which either involves the carrying on or preparations to carry on a new trade. Using the funds to meet the costs of research and development intended to create or benefit a new qualifying trade will also be acceptable. The money must be spent within three years of the date of issue of the shares. The anti-avoidance requirement is that there must be no pre-arranged exit for the investor involving the purchase of the shares, or the disposal of assets.

Which companies qualify?

The rules are intended to benefit new companies. The basic requirements are that the company must be unquoted. The trade must be a 'new' qualifying trade. This is one not carried out by either the company or any other person for longer than three years at the date the shares are issued. The company must exist wholly for the purpose of carrying out one or more qualifying trades throughout the three-year period from the date of issue of the shares. If the company goes into receivership or administration or is wound up during this period, this will not prevent the relief being given, provided there was a commercial justification for the action.

The other main conditions relating to the company can be summarised as follows:

- the company must have a permanent establishment in the UK
- the company must be effectively solvent at the date of issue of the shares
- the company may have a qualifying subsidiary
- the company must not be a member of a partnership

- immediately before the investment, the gross assets of the company plus the value of any related entity (one that holds more than 25% of the capital or voting power in the issuing company) must not exceed £350,000
- there are fewer than 25 full-time employee equivalents in the company and any related entity
- the company must not have had EIS or Venture Capital Trust (VCT) investment before the SEIS shares are issued
- the total amount of investment made under the SEIS in the company must not exceed an aggregate of £250,000.

Which trades qualify?

The primary requirement is that the company must carry on a genuine new trading venture. There may be a problem if the same activities had been carried on as part of another trade. Basically, any trading activity will qualify unless it is an excluded activity within the definitions used for the EIS. This means that activities such as property development, retail distribution, hotels, nursing homes and farming will not qualify. The trade must be carried out on a commercial basis.

How is relief obtained?

The relief is given as a reduction against the total tax liability for the year but cannot turn a tax liability into a tax repayment. In that situation the individual would be able to carry back the unused relief to the preceding tax year for use if there was any tax unrelieved for that year.

Examples

Samantha invests £60,000 under the SEIS. Potentially her tax relief is 50% of her investment which is therefore worth £30,000. As her tax liability for the year is £45,000, the maximum relief is available to reduce her tax liability to £15,000.
Richard also invests £60,000 under the SEIS. His forecast tax liability is only £20,000 so the claim to relief under the SEIS will be limited to £20,000 for that tax year. However, Richard can in addition make a claim to carry back the unused relief of £10,000 (£30,000 less £20,000 relieved) to the preceding tax year.
The relief must be claimed and requires a certificate from the company issuing the shares.

Can the relief be withdrawn?

The short answer is yes if certain events happen within three years of the date on which the shares are issued. The most obvious event is the disposal of the shares in that period. There are complex rules that will cause the relief to be withdrawn if the investor receives value from the company during this period.

What about the CGT position?

Where shares are sold more than three years after the date on which they are issued, then any resulting gain is free of CGT. Shares sold within three years would be chargeable but may qualify for Business Asset Disposal Relief (BADR) if the various conditions are met.

Where a disposal is exempt for gains purposes, this would normally mean that a loss would not be allowable for CGT purposes, but an allowable loss is available under the scheme. Where SEIS income tax relief has been obtained and is not withdrawn then the capital loss is reduced so that tax relief is not duplicated.

Example

Murat invested £25,000 in the SEIS for which he received £12,500 relief against his income tax liability of £35,000. If four years later the company is unsuccessful and is liquidated with no value returned to the shareholders then his allowable capital loss will be £12,500, being the amount invested of £25,000 less the income tax relief obtained of £12,500.
Clearly investors will hope that they are not in a capital loss position but where this does happen, the allowable loss qualifies for relief against either gains or income. The facility to use a capital loss against income is only available in certain specified circumstances which include a capital loss on the SEIS. It can be used in the year of the loss and/or the preceding year to relieve net income and can therefore potentially save tax at the individual's highest rate of tax.

A bonus exemption

There is also an additional exemption where assets are disposed of at a gain in that year and funds equal to the amount of the gain are invested in SEIS shares. Reinvestment relief is available at 50% of the matched gain where the proceeds are invested in SEIS shares.

Where only part of the gain is invested in such shares then only that part is exempt. The maximum gain to be relieved is capped at £200,000. Further, this relief will only be allowed where the investment also qualifies for income tax relief and a claim is made. If for any reason the SEIS relief is withdrawn on the shares then the gain will be reinstated.

Example

Isaac sells some more quoted shares for £200,000, making a gain of £80,000. He invests £80,000 of the proceeds in new shares which qualify under the SEIS. He will be able to claim a reduction of £40,000 (being 50% of the amount invested in the SEIS) in the chargeable gain on the shares.

Comparison to EIS

The SEIS supplements the EIS. Some aspects of both schemes are similar but there are also key differences. These are not considered in detail here, however, consider the position of the individual investor. Under the EIS those investing up to £1 million receive income tax relief at up to 30%. From a tax relief perspective on investments up to £200,000, the SEIS is more favourable but it clearly cannot be used for larger investments.

How we can help

SEIS compliments the EIS and related Venture Capital Trust investment schemes as it may be an alternative way of attracting funds at a time when it is still difficult to obtain finance from traditional sources such as banks. Great care will be required to ensure that all opportunities to use it are obtained for investor and qualifying company alike. Please do contact us if this is an area of interest.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Share Ownership for Employees - EMI

Enterprise Management Incentives (EMI)

Retaining and motivating staff are key issues for many employers. Research in the UK and USA has shown a clear link between employee share ownership and increases in productivity. The government has therefore introduced a variety of ways in which an employer can provide mechanisms for employees to obtain shares in the employer company without necessarily suffering a large tax bill. Provided the company meets the qualifying conditions, EMI can be one of the most tax efficient and flexible means available.

EMI allows selected employees (often key to the employer) to be given the opportunity to acquire a significant number of shares in their employer through the issue of options. Whilst an EMI can offer significant tax advantages, the key driver for any incentive arrangement should be the commercial objectives of the business.

This factsheet outlines the rules for EMI.

Tax problems under normal rules

If shares are simply given to an employee the market value of the shares will be taxed as earnings from the employment. This is expensive for the employee as he may not have any cash to pay the tax arising.

In order to avoid this immediate charge, options could be granted to an employee. An option gives the employee the right to obtain shares at a later date. Provided that the terms of the option are that it must be exercised within ten years, any tax liabilities will be deferred until the time the options are exercised.

This may still be expensive for the employee if he is not then in a position to sell some of the shares in order to pay the tax arising.

What does EMI offer?

EMI allows options to be granted to employees which may allow the shares to be received without any tax bill arising until the shares are sold.

How does it work?

Selected employees are granted options over shares of the company. The options should be capable of being exercised within ten years of the date of grant.

In order to qualify for the income tax and National Insurance contributions (NICs) reliefs, the options awarded need to be actually exercised within ten years of the date of the grant. There is also a statutory limit of £250,000 in respect of options granted on or after 16 June 2012, which maximises the value of the options which may be granted to any one employee. No employee may hold unexercised qualifying EMI options with a market value of more than £250,000. The market value is taken at the date of grant.

What are the tax benefits to employees?

The grant of the option is tax free.

There will be no tax or NICs for the employee to pay when the option is exercised so long as the amount payable for the shares under the option is the market value of the shares when the option is granted.

The EMI rules allow the grant of nil cost and discounted options. However, in these circumstances, there is both an income tax and NIC charge at the time of exercise on the difference between what the employee pays on exercise and the market value of the shares at the date of grant.

Following the acquisition of the shares, when the option is exercised, an employee may immediately dispose of or may retain the shares for a period before selling them. At such time there will be a chargeable gain on any further increase in value. The CGT liability will depend on the availability of any reliefs and annual exemption.

- CGT at the rate of 18% (10% up until 29 October 2024) applies to gains where net total taxable gains and income are below the income tax basic rate band.
- CGT on any part of gains above this limit will be charged at 24% (20% up until 29 October 2024).

In certain circumstances, in respect of shares acquired through exercising EMI options, Business Asset Disposal Relief may be available to reduce the CGT liability in the tax year 2025/26 to 14% (10% for 2024/25). Although the Business Asset Disposal Relief (BADR) conditions have to be satisfied they are modified so that:

- the 5% minimum shareholding requirement does not apply.
- and the 24 months (12 months before 6 April 2019) minimum holding requirement is allowed to commence on the date the option is granted.

These rules apply to shares acquired on or after 6 April 2012.

What are the benefits to employers?

- Employees have a potential stake in their company and therefore retention and motivation of these employees will be enhanced.
- Options will not directly cost the employer any money in comparison to paying extra salary.
- There will normally be no NICs charge for the employer when the options are granted or exercised or when the employee sells the shares.
- A corporation tax deduction for the employer company broadly equal to employees' gains.

EMI: Points to consider

There are a number of issues to consider in deciding whether EMI is suitable for your company.

- Does the company qualify?
- Which employees are eligible and who should be issued options?
- What type of shares will be issued?
- When will the rights to exercise options arise?
- The costs of setting up the option plans are not tax deductible.

Does the company qualify?

EMI was introduced by the government to help small higher risk companies recruit and retain employees with the skills that will help them grow and succeed. The company must therefore:

- exist wholly for the purpose of carrying on one or more 'qualifying trades'
- have gross assets of no more than £30 million
- not be under the control of another company (so if there is a group of companies, the employee must be given an option over shares in the holding company)
- have fewer than 250 full time employees

The main trades excluded from being qualifying trades are asset backed trades such as:

- property development
- operating or managing hotels
- farming or market gardening.

Which employees are eligible and who should be issued options?

An employee cannot be granted options if they control more than 30% of the ordinary share capital of the company. They must spend at least 25 hours a week working for the company or the group, or if the working hours are shorter, at least 75% of their total working time must be spent as an employee of the company or group.

Subject to the above restrictions, an employer is free to decide which employees should be offered options. The sole test is that options are offered for commercial reasons in order to recruit or retain an employee.

What type of shares will be issued?

EMI provides some flexibility for employers. For example, it is possible to limit voting rights, provide for pre-emption or set other conditions in respect of shares which will be acquired on exercise of an EMI option. The shares must, however, be fully paid ordinary shares so that employees have a right to share in the profits of the company.

When will the rights to exercise options arise?

The options must be capable of being exercised within ten years of the date of grant but there does not have to be a fixed date.

Examples of circumstances in which the options could be exercised include:

- fixed period
- profitability target or performance conditions are met
- takeover of company
- sale of company
- flotation of company on a stock market.

Options can be made to lapse if certain events arise, for example the employee leaves the employment.

How we can help

Whilst an EMI can offer significant tax advantages, the key driver for any incentive arrangement should be the commercial objectives of the business. There are a variety of alternative arrangements which can be used each with their own conditions and advantages. We can help you decide whether EMI is appropriate for your business and whether the business will qualify. Please contact us for advice on the best options available for your business.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
Small Company Accounting

This factsheet sets out the choices that small companies have with regards to preparing accounts and filing them at Companies House. The nature of the company's activities, the types of assets which it has and whether external scrutiny is required / desired will need to be considered.

We would be happy to assist you in providing specific advice for your company.

UK GAAP for small companies

Small companies, depending on size, have the following options:

- to use the same accounting standard as non-small UK companies - FRS 102
- to use the FRS 102 reduced disclosure regime (section 1A), or
- where relevant, to apply an alternative standard - The Financial Reporting Standard applicable to the Micro-entities - FRS 105.

Size limits for small and micro-entities

The government has uplifted the company size thresholds, which take effect for periods beginning on or after 6 April 2025.

The current size limits to qualify as a small entity are set out below:

	Current
Turnover	£15m (previously £10.2m)
Total assets	£7.5m (previously £5.1m)
Employees	50

The size limits to qualify as a micro-entity are set out below:

	Current
Turnover	£1m (previously £632,000)
Total assets	£500,000 (previously £316,000)
Employees	10

A company needs to meet two out of three of the above criteria for two consecutive years to qualify as a small or micro company, unless it is the first year of the company's existence, in which case only that year has to be considered. The turnover limit is adjusted if the financial year is longer or shorter than twelve months.

There are certain exclusions from the above small and micro-entity size limits which are set out in the Companies Act 2006. Certain types of entities are prohibited from preparing micro-entity accounts, for example charities.

Small companies previously had the option of not filing their profit and loss account and/or directors' report at Companies House, known as filing 'filleted' accounts. Small companies also had the option of preparing less detailed accounts (abridged accounts) for members, providing every member agreed annually, and then upon filing were able to choose to abridge the balance sheet, the profit and loss account or both. Charities were prohibited from preparing abridged accounts.

Please note, that while the effective date is unknown, legislation changing the filing requirements for small companies has been passed into law. This means that small companies will no longer have these options available to them.

Contents of micro-entity accounts

The accounts of a micro-entity are considerably shorter and simpler than those otherwise required for a small company. Micro-companies are no longer required to prepare a Directors' report.

The profit and loss account and balance sheet include less detail. For example, current assets are shown in aggregated total on the balance sheet rather than being analysed into stocks, debtors and cash.

Notes of the following should be disclosed at the foot of the balance sheet:

- off balance sheet arrangementsaverage monthly employees
- directors' advances, credits and guarantees, and
- guarantees, contingencies and other financial commitments.

Only the balance sheet and the footnotes need to be filed at Companies House. The profit and loss account does not need to be filed (though this is anticipated to change in the near future as a result of secondary legislation intended to support the Economic Crime and Corporate Transparency Act. It is expected that small companies will be required to file a profit and loss account with Companies House in future)

The company does not need to produce (nor file) typical small company notes such as:

- accounting policies
- post balance sheet events, and
- related party transactions.

Fair value accounting and alternative accounting rules cannot be applied in micro-entity accounts, meaning no revaluations or measurement at fair value is permitted.

Contents of FRS 102 1A accounts

The financial statements of a small entity must give a true and fair view of the assets, liabilities, financial position and profit or loss of the small entity for the reporting period.

A complete set of financial statements of a small entity must include all of the following:

- a statement of financial position as at the reporting date
- an income statement for the reporting period, and
- notes to the accounts.

A statement of cashflows is not required.

The following may however be required in order to show a true and fair view:

- when a small entity recognises gains or losses in other comprehensive income it is encouraged to present a statement of total comprehensive income, and
- when a small entity has transactions with equity holders it is encouraged to present a statement of changes in equity or a statement of income and retained earnings.

In relation to the notes of the accounts one significant exemption is available in relation to related party transactions. Only material related party transactions which are not concluded under normal market conditions will need to be considered for disclosure.

Comparison of FRS 102 1A accounts and FRS 105

The table below sets out the requirements including those encouraged for FRS 102 Section 1A and FRS 105:

	FRS 102 (Section 1A)	FRS 105
Directors' report	Yes	No
Profit and loss account	Yes	Yes
Statement of comprehensive income / Statement of total recognised gains/losses	Encouraged	No
Statement of changes in equity / Statement of income & retained earnings / shareholders' funds note	Encouraged	No
Balance sheet	Yes	Yes
Statement of cash flows	No	No

FRS 105 imposes simpler accounting treatment compared to FRS 102 Section 1A. There are numerous differences between FRS 102 Section 1A and FRS 105 but the most significant are as follows:

Revaluation / fair value of assets

Fair value accounting is not permitted under FRS 105. By contrast, FRS 102 Section 1A permits (and in some cases requires) some assets to be measured at fair value annually.

The following assets and liabilities are most significantly impacted by fair value accounting under Section 1A:

- Investment properties, for example those properties held to earn rental income, should be revalued every year to fair value.
- Forward foreign currency contracts require restatement to their fair value at the balance sheet date.
- Loans payable or receivable (for example to or from a director) falling due more than one year, with a nil or below market rate of interest, must be measured at the present value of future cash flows, however there is an optional relaxation of this requirement permitted within FRS 102 for small entities, in certain circumstances.

Deferred tax

FRS 105 does not allow companies to recognise deferred tax. By contrast, FRS 102 Section 1A requires deferred tax to be provided on fair value adjustments, and therefore likely to occur more frequently than before.

How we can help

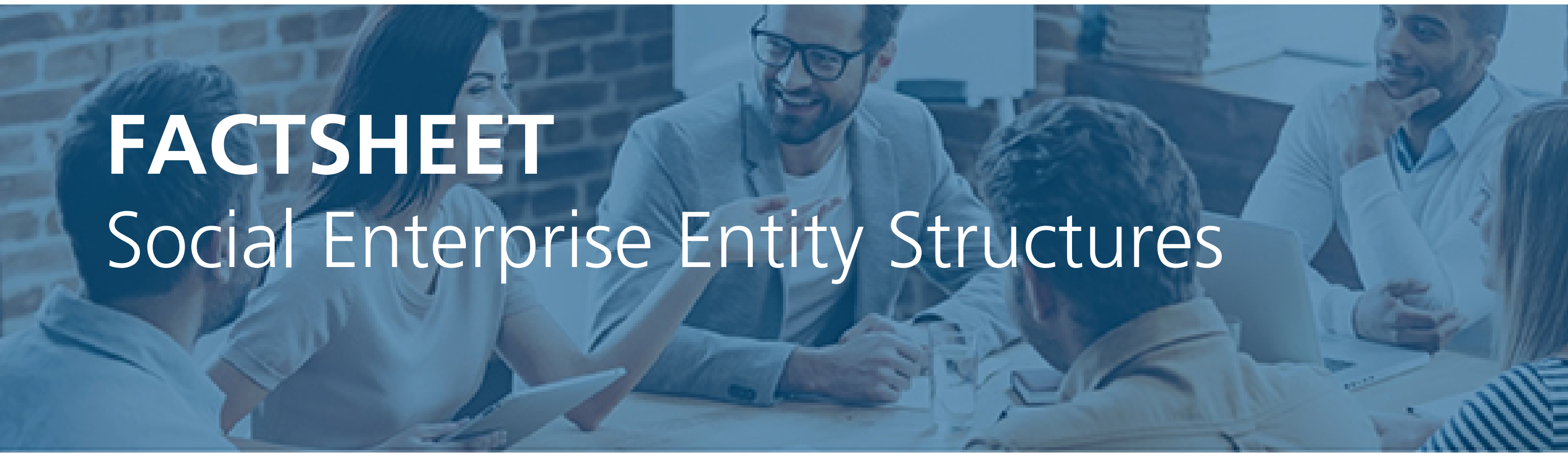
We will be very pleased to discuss the impact on your small company of which accounting standard is to be used. If you would like to discuss these issues in more detail, please contact us.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward

Chartered Accountants

Nunn Hayward
Chartered Accountants



FACTSHEET
Social Enterprise Entity Structures

A social enterprise entity is a business with primarily social objectives. Any surpluses made are reinvested into the main principle of that entity (or into the community) rather than maximising profit for shareholders. Examples of types of objectives are regeneration of the local environmental area, promoting climate change awareness and training for disadvantaged people. There are various legal forms that should be considered when setting up this type of entity. Which one you choose will depend upon what the social enterprise actually does and the style of management of those running it.

The possible options available are as follows:

- Limited company
- Trust
- Unincorporated association
- Community interest company (CIC)
- Charitable incorporated organisation (CIO)
- Co-operative or community benefit society.

Limited company

A limited company is a separate legal entity from its members and gives them limited liability. A limited company set up with a social purpose needs to set out its objectives, which can also include commercial objectives. There are two choices of limited companies for social enterprise entities: a company limited by shares and a company limited by guarantee. In the case of a company limited by shares, dividends can be paid to the shareholders.

Limited company accounts need to be filed at Companies House and consideration needs to be given as to whether an audit is required.

If the limited company's objectives are exclusively charitable and for the public benefit, it may also be set up as a charity. Where this is the case the company will need to register with the relevant charity regulator. If it is a charity then it will need to follow the relevant charities legislation (eg Charities Act 2011 in England and Wales) and the charity regulator will require the submission of Annual Returns. In return, however, it will have the benefits of being a charity such as potentially qualifying for a number of tax exemptions and reliefs on income and gains, and on profits for some activities.

Trusts

Trusts are unincorporated bodies which do not distribute profits. The trust is set up to govern how its assets are to be used, and as such can hold property and other assets for the community. Trustees act on behalf of the community in looking after the assets, but it is important to note that the trust does not have its own legal identity. The trustees are therefore liable for the trust's liabilities.

Trust deeds are set up to protect the trust's objectives. The trust is able to write an asset lock into its rules in order to secure assets for its intended community.

Like limited companies, trusts can also be charities. The same points which are noted above for charitable limited companies should be considered for charitable trusts.

Unincorporated association

The simplest form for a social enterprise entity is an unincorporated association. This could be used when a number of individuals come together for a common 'social' purpose. There are very few formalities to setting up this way, which is the key advantage. The members can set their own rules and a management committee is elected to run the entity on behalf of any members it may have. Associations are also able to carry out commercial activities.

The problem with the unincorporated association is that it has no separate legal identity. If there are any debts, the members are legally liable to pay those debts down to their last worldly possession. This type of entity is not likely to be suitable if you wish to employ staff, raise finance, take on leases or purchase property, apply for grants or enter into contractual arrangements.

Like limited companies and trusts, unincorporated associations can also be charities. The same points which are noted above for charitable limited companies should be considered for charitable unincorporated associations.

Community interest company (CIC)

These are specific limited companies that provide benefits to the community. This type of structure was developed due to the lack of legal structures for non-charitable social enterprises. They can be set up as either companies limited by shares or companies limited by guarantee, and thus have the benefits of limited liability. CICs need to be registered and comply with the CIC Regulations. They need to pass the 'community interest test' before they can register as CICs. Thus the main difference compared to other companies is that they are operating for the benefit of the community and not for the benefit of shareholders. An existing company can be converted to a CIC, although a CIC cannot hold charitable status.

Like trusts, they have an asset lock which restricts profit distribution in certain circumstances and ensures that the assets are used for the community purpose. On winding up a CIC, all of the assets must be transferred to another similar asset-locked body.

A key advantage of a CIC (rather than a charity) is that the directors of a CIC can be remunerated (charity trustees generally are not remunerated). They are also not as heavily regulated (although are still regulated under a 'light touch' regime). They obviously do not have the taxation advantages that charities are entitled to and they have to file a community interest report annually with the CIC regulator (which is made available publicly).

Charitable incorporated organisation (CIO)

The charity regulators for England and Wales and Scotland have been registering new CIOs/SCIOs (Scottish Charitable Incorporated Organisations) for a number of years. CIOs and SCIOs have benefits similar to a limited company charity. This means that the members and trustees are usually personally safeguarded from the financial liabilities of the charity, and that the charity has its own legal personality which means trustees do not have to take out contracts in their own names. CIOs and SCIOs do not have to register with Companies House, but they do need to register with their relevant charity regulator.

Co-operative or community benefit society

Community benefit societies (BenComs) are incorporated registered societies which operate for the benefit of the community in which they operate. They must be able to demonstrate their social objectives and these must continue to be met. Registration is with the Financial Conduct Authority for an applicable fee which will depend upon its rules.

BenComs are not the same as co-operatives as these operate primarily for the benefit of members. Depending on how they distribute profits and what activities they undertake, co-operatives can also be social enterprise entities.

How we can help

All of the above structures require specialist advice so please contact us to find out more. We will be happy to discuss your plans and the most appropriate structure with you. The most appropriate structure will depend on a number of factors, including consideration of taxation implications, the legal entity, regulation and management style.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Sources of Finance

The financing of your business is the most fundamental aspect of its management. Get the financing right and you will have a healthy business, positive cash flows and ultimately a profitable enterprise. The financing can happen at any stage of a business's development. On commencement of your enterprise you will need finance to start up and, later on, finance to expand.

Finance can be obtained from many different sources. Some are more obvious and well-known than others. The following are just some of the means of finance that are open to you and with which we can help.

Bank loans and overdrafts

The first port of call that most people think about when trying to obtain finance is their own bank. Banks are very active in this market and seek out businesses to whom they can lend money. Of the two methods of giving you finance, the banks, especially in small and start-up situations, invariably prefer to give you an overdraft or extend your limit rather than make a formal loan. Overdrafts are a very flexible form of finance which, with a healthy income in your business, can be paid off more quickly than a formal loan. If, during the period you are financing the overdraft, an investment opportunity arises, then you could look to extend the options on your overdraft facility to finance the project.

Many businesses appreciate the advantages of a fixed-term loan. They have the comforting knowledge that the regular payments to be made on the loan make cash flow forecasting and budgeting more certain. They also feel that, with a term loan, the bank is more committed to their business for the whole term of the loan. An overdraft can be called in but, unless you are failing to make payments on your loan, the banks cannot take the finance away from you.

Many smaller loans will not require any security but, if more substantial amounts of money are required, then the bank will certainly ask for some form of security. It is common for business owners to offer their own homes as security although more risk-averse borrowers may prefer not to do this. Anyone offering their house as security should consult with any co-owners so that they are fully aware of the situation and of any possible consequences.

Savings and friends

When commencing a new business, very often the initial monies invested will come from the individual's personal savings. The tendency of business start-ups to approach relatives and friends to help finance the venture is also a widespread practice. You should make it clear to them that they should only invest amounts they can afford to lose. Show them your business plan and give them time to think it over. If they decide to invest in your business, always put the terms of any agreement in writing.

Issue of shares

Another way of introducing funds to your corporate business is to issue more shares. This is always a welcome addition to business funds and is also helpful in giving additional strength to the company's balance sheet. However, you need to consider where the finance is coming from to subscribe for the new shares. If the original proprietor of the business wishes to subscribe for these shares, then he or she may have to borrow money in a similar way to that discussed earlier. Typically, however, shareholders in this position are often at the limit of funds that they can borrow. Therefore, it may be necessary to have a third party buy those shares. This may mean a loss of either control or influence on how the business is run. An issue of shares in this situation can be a very difficult decision to make.

Venture capital

Approaching venture capital houses for finance will also mean an issue of new shares. The advantage of going to such institutions is the amount of capital they can introduce into the business. Because of the size of their investment, you can expect them to want a seat on your Board. They will also make available their business expertise which will help to strengthen your business, although inevitably this will come with an additional pressure for growth and profits.

On a smaller scale, the government has introduced various tax-efficient schemes for entrepreneurs to invest in growing businesses. The current schemes available are called the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCT). We have separate factsheets providing details on these areas.

The SEIS is designed to help small, early-stage companies to raise equity finance by offering a range of tax reliefs to individual investors who purchase new shares in those companies. It complements the EIS which offers tax reliefs to investors in higher-risk small companies. The SEIS is intended to recognise the particular difficulties which very early stage companies face in attracting investment, by offering tax relief at a higher rate than that offered by the EIS.

Retained earnings and drawings

Since ultimately the well-being of a business is connected with the cash flow of that enterprise, if a proprietor would like more liquidity, then it is sometimes necessary to re-examine the amount of money they are withdrawing from the business for their personal needs. In this way, additional funds earned by the business can be retained for future use.

Other sources of finance

Other possible sources of finance are outlined below.

Factoring

Factoring provides you with finance against invoices that your customers have not yet paid. Typically you can receive up to 85% of the value of the invoice immediately and the balance (less costs) when the customer pays.

Hire Purchase (HP)

This is used to finance the purchase of equipment. Your business buys the equipment but payments of capital and interest are spread over an agreed period.

Leasing

This is a method of financing equipment you do not need to own. It is often used for vehicle finance. The equipment is rented rather than owned and the rental payments spread over several years. There can also be the option to fix maintenance costs as part of the agreement (contract hire).

Matching

It makes sense to match the finance you are seeking to the purpose for which it will be used.

- Working capital - overdraft or factoring.
- Equipment and vehicles - fixed-term loan, HP or leasing.
- Property - long-term mortgage.
- Development/start-up - investment finance.

How we can help

We have the expertise and the contacts to help you at all stages of your business development and to help you finance the business along the way. If you have any questions or proposals, please contact us as we would be happy to discuss them with you.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Stamp Duty Land Tax

Who pays the tax?

SDLT is payable by the purchaser in a land transaction occurring in England and Northern Ireland. For land transactions occurring in Scotland, Land & Buildings Transaction Tax (LBTT) applies and in Wales land transactions are chargeable to Land Transaction Tax (LTT).

What is a land transaction?

A transaction will trigger liability if it involves the acquisition of an interest in land. This will include a simple conveyance of land such as buying a house, creating a lease or assigning a lease.

What is the tax charged on?

Tax is chargeable on the consideration. This will usually be the actual cash that passes on the sale. However the definition is very wide and is intended to catch all sorts of situations where value might be given other than in cash: for example, if the purchaser agrees to do certain work on the property.

When is the tax payable?

The tax has to be paid when a contract has been substantially performed. In cases where the purchaser takes possession of the property on completion, that will be the date. However, if the purchaser effectively takes possession before completion - known as 'resting on contract' - that will be regarded as triggering the tax.

How much tax is payable on residential property?

Each SDLT rate is payable on the portion of the property value which falls within each band.

SDLT rates

The current rates are as follows:

Residential property Purchase price of property	Band % Rates
£0 - £125,000	0
£125,001 - £250,000	2
£250,001- £925,000	5
£925,001 - £1,500,000	10
£1,500,001 and over	12

First-time buyer relief

First-time buyers may be eligible for first-time buyer relief on purchases of residential property up to £500,000. The rates apply to the portion of the total value which falls within each band.

Each SDLT rate is payable on the portion of the property value which falls within each band. The rates and thresholds are:

Property value	Band % Rates
£0 - £300,000	0
£300,001 - £500,000	5

No relief can be claimed if the property is over £500,000 and the normal SDLT rates will apply to the full amount of consideration.

Additional residential properties

Higher rates of SDLT are charged on purchases of additional residential properties (above £40,000).

The main target of the higher rates is purchases of buy to let properties or second homes. However, there will be some purchasers who will have to pay the additional charge even though the property purchased will not be a buy to let or a second home. The 36-month rule set out below helps to remove some transactions from the additional rates (or allow a refund).

The higher rates are 5% above the SDLT rates shown in the table above. The higher rates potentially apply if, at the end of the day of the purchase transaction, the individual owns two or more residential properties.

Some further detail:

- Purchasers will have 36 months to claim a refund of the higher rates if they buy a new main residence before disposing of their previous main residence.
- Purchasers will also have 36 months between selling a main residence and replacing it with another main residence without having to pay the higher rates.
- A small share in a property which has been inherited within the 36 months prior to a transaction will not be considered as an additional property when applying the higher rates.
- There will be no exemption from the higher rates for significant investors.

SDLT surcharge on non-UK residents

There is a 2% SDLT surcharge on non-UK residents (and certain UK resident companies that are controlled by non-UK residents) purchasing residential property in England and Northern Ireland.

What about non-residential and mixed property?

The rates for non-residential and mixed property are set out in the table below.

The SDLT rates are payable on the portion of the property value which falls within each band.

Non-residential and mixed	Band % Rates
£0 - £150,000	0
£150,001 - £250,000	2
£250,001 and over	5

Are there any exemptions?

Yes. There are a number of situations in which the transfer of land will not be caught for SDLT. No SDLT will be payable and no return will be due. These include:

- the value of the freehold is less than £40,000
- a licence to occupy
- a gift of land
- transfers of land in a divorce or on death
- transfer of land to a charity
- transfers of land within a group of companies where an SDLT group relief claim is made.

How does the tax work on leases?

The SDLT payable on the purchase of a lease depends on whether the lease is new or existing (an assigned lease).

Where a new lease is purchased the SDLT payable will be calculated on the value of the premium (upfront lump sum payment). If anything more than a nominal rent is payable, SDLT will also be payable on the net present value (NPV) of the rent over the term of the lease. The premium and the NPV are treated as two separate amounts. If the calculated value of either exceeds £250,000 for residential property and £150,000 for non-residential, the excess is charged SDLT at the normal rates.

An SDLT return will be due where the premium is £40,000 or more, even if no SDLT is due, unless the term of the lease is less than seven years.

If an existing lease is purchased, SDLT is calculated in the same way as the purchase of a freehold property. The amount of the premium is the consideration subject to SDLT and is also calculated in the same way as the purchase of a freehold property.

The government has SDLT calculators which work out the amount of SDLT payable. The calculators can be found at www.gov.uk/stamp-duty-land-tax-calculators.

How do I tell HMRC about a liability?

The purchaser must complete an SDLT1 return and this must be submitted to the relevant HMRC office within 14 days of the transaction's effective date. Solicitors and conveyancers can submit the return online on your behalf. Otherwise, a paper return must be used. Payment must be made at the same time. A late return triggers an automatic penalty of £100, and late payment of the tax will mean a charge to interest.

What will HMRC do then?

A certificate will be sent to the purchaser to show that they have paid the tax. This certificate is required to change the details of the property ownership at the Land Registry. The fact that HMRC has given the purchaser a certificate does not mean the SDLT calculations are agreed. HMRC has nine months in which to decide whether or not to enquire into the return and challenge the figures.

How we can help

If you are planning to enter into an arrangement to purchase land, we can advise you of the precise impact of SDLT on the transaction so please contact us. We can also help you complete the SDLT1 and submit it to HMRC.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Starting Up In Business

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

It is the ambition of many people to run their own business. Some may have been made redundant and find themselves with free time and financial resources. Others make the decision to start up in business to be more independent and obtain the full financial reward for their efforts.

Whatever the reason, a number of dangers exist. Probably the greatest concern is the possibility of business failure.

Read on for guidance on some of the factors which need to be considered before trading begins.

This factsheet cannot cater for every possibility and any decisions should be supported by professional advice.

Initial considerations

In order to make your business a success there are a number of key factors which should be considered:

- commitment - starting a business is demanding. Determination and enthusiasm are essential
- skills - you will need managerial, financial, technical and marketing skills. If you do not have these skills personally, they can be found in a partner or employee, or acquired through training
- your product or service should have a proven or tested market, but must not conflict with the patent or rights of an existing business.

In addition to these general considerations there are a number of more specific matters.

The business plan

The business plan is the key to success. If you need finance, no bank manager will lend money without a sensible plan.

Your plan should provide a thorough examination of the way in which the business will commence and develop. It should describe the business, product or service, market, mode of operation, capital requirements and projected financial results.

Business structure

There are three common types of business structure:

- **Sole trader**
  This is the simplest form of business since it can be established without legal formality. However, the business of a sole trader is not distinguished from the proprietor's personal affairs.

- **Partnership**
  A partnership is similar in nature to a sole trader but because more people are involved it is advisable to draw up a written agreement and for all partners to be aware of the terms of the partnership. Again the business and personal affairs of the partners are not legally separate. A further possibility is to use what is known as a Limited Liability Partnership (LLP).

- **Company**
  The business affairs are separate from the personal affairs of the owners, but there are legal regulations to comply with.

The appropriate structure will depend on a number of factors, including consideration of taxation implications, the legal entity, ownership and liability.

Business stationery

There are minimum requirements for the contents of business stationery, both paper and electronic, which will depend on the type of business structure.

Books and records

All businesses need to keep records. They can be maintained by hand or may be computerised but should contain details of payments, receipts, credit purchases and sales, assets and liabilities. If you are considering purchasing computer software to maintain your records, obtain professional advice.

Accounts

The books and records are used to produce the accounts. If the records are well kept it will be easier to put together the accounts. Accounts must be prepared for HMRC and if a company is formed there are strict legal requirements as to their layout. The accounts and company tax return must be submitted electronically to HMRC in a specific format (iXBRL).

A company and a LLP may need to have an audit and will need to make the accounts publicly available by filing them at Companies House within a strict time limit.

Taxation

When starting in business, taxation aspects must be considered.

- **Taxation on profits**
  The type and rate of taxation will depend on the form of business structure. However, the taxable profit will normally differ from the profit shown in the accounts due to certain expenses which are not allowed for tax purposes and the timing of some tax allowances.

- **National Insurance (NI)**
  The rates of NI contributions are generally lower for a sole trader or partnership than for a director of a company but the entitlements can also differ. In a company, it may be possible to avoid NI by paying dividends rather than salary.

- **Value Added Tax (VAT)**
  Correctly accounting for VAT is an essential part of any business and neglect may result in a significant loss.

When starting a business you should consider the need to register for VAT. If the value of your taxable sales or services exceeds the registration limit you will be obliged to register. If you are submitting VAT returns you will also need to consider appropriate software to ensure that you comply with the Making Tax Digital requirements.

Employing others

For the business to get off the ground or to enable expansion, it may be necessary to employ staff.

It is the employer's responsibility to advise HMRC of the wages due to employees and to deduct income tax and national insurance and to account for student loan deductions under PAYE. The deductions must then be paid over to HMRC. Payroll records should be carefully maintained.

Under Real Time Information an employer must advise HMRC of wages and deductions 'on or before' the time they are paid over to the employee.

Employers are also required to automatically enrol all eligible employees in a pension scheme and to make contributions to that scheme on their behalf. Enrolment may be either into an occupational pension scheme or the National Employment Savings Trust (NEST).

You will also need to be familiar with employment law.

Premises

There are many pitfalls to be avoided in choosing a property. Consideration should be given to the following:

- suitability for the purpose
- compliance with legal regulations
- local by-laws
- physical restrictions such as access.

Insurance

Comprehensive insurance for business motor vehicles and employer's liability insurance are a legal requirement. Other types of insurance such as public liability, consequential loss, business assets, Keyman and bad debts should be considered.

Pensions

Putting money into a pension scheme can be a way of saving for retirement because of the favourable tax rules.

How we can help

Whilst some generalisation can be made about starting up a business, it is always necessary to tailor the strategy to fit your situation. Any plan must take account of your circumstances and aspirations.

Whilst business success can never be guaranteed, professional advice can help to avoid some of the problems which befall new businesses.

We would welcome the opportunity to assist you in formulating a strategy suitable for your own requirements. We can also provide key services such as bookkeeping, management accounts, VAT return and payroll preparation at an early stage. Please contact us to find out more.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET

Statutory Sick, Statutory Maternity and Statutory Paternity Pay

01753 888211 | info@nhllp.com | www.nhllp.com

Statutory Sick Pay (SSP), Statutory Maternity Pay (SMP) Statutory Paternity Pay (SPP) and Shared Parental Pay (ShPP) are important regulations to understand as they enforce minimum legal requirements on employers. Each operates in a different way.

This factsheet sets out the main principles of the regulations and what an employer needs to consider.

Statutory Sick Pay (SSP)

SSP applies to all employers, regardless of size and represents the minimum payments which should be paid by law.

It is possible to opt out of the scheme but only if an employer's occupational sick pay scheme is equal to or more than SSP. There would still be a requirement to keep appropriate records, etc.

We have outlined the general principles below but first we need to explain some of the special terms used.

Glossary of terms

Period of incapacity for work (PIW)

A PIW consists of four or more calendar days of sickness in a row. These do not have to be normal working days.

Linking

Where one PIW starts within eight weeks of the end of a previous PIW the periods can be linked.

Qualifying days (QDs)

These are usually the employee's normal working days unless other days have been agreed.

SSP is paid for each qualifying day once the waiting days have passed.

Waiting days (WDs)

The first three QDs in a PIW are called WDs. SSP is not payable for WDs.

Where PIWs are linked it is only the first three days of the first PIW which are WDs.

Who qualifies for SSP?

All employees who, at the beginning of a PIW or linked PIWs, have had average weekly earnings above the Lower Earnings Limit (LEL) of £125.

Employees must have notified you about their sickness - either within your own time limit or within seven days.

They must give evidence of their incapacity. Employees can self-certify their absence for the first consecutive seven days; thereafter, form Med3 (Fit Note) is required from their General Practitioner.

How much SSP is payable?

The weekly rate of SSP is £118.75 for 2025/26 but it is computed at a daily rate.

The daily rate

The daily rate may vary for different employees. It is calculated by dividing the weekly rate by the number of qualifying days in a week. For example, an employee with a five day working week would have a daily rate of £23.75 for 2025/26.

Only QDs qualify for SSP and remember the first three days (WDs) do not qualify.

Maximum SSP

The maximum entitlement is 28 weeks in each period of sickness or linked PIW.

Employers are not able to recover SSP paid for sickness absences.

Pay as You Earn (PAYE) and records

SSP is included in gross pay and PAYE is operated as normal.

Employers should monitor sickness absence and maintain detailed records as these will be required for PAYE purposes.

Statutory Maternity Pay (SMP)

SMP is paid to female employees or former employees who have had or are about to have a baby.

The payment of SMP is compulsory where the employee fulfils certain requirements.

The requirements

SMP is payable provided the employee has:

- started her maternity leave
- given 28 days notice of her maternity leave (unless with good reason)
- provided medical evidence with a form (MATB1)
- been employed continuously for 26 weeks up to and including her qualifying week
- had average weekly earnings (AWE) above the LEL in the relevant period.

It is important to note that mothers have a legal entitlement to take up to 52 weeks off around the time of the birth of their baby, whether or not they qualify for SMP. This means that mothers can choose to take up to one year off in total.

The amount payable

The rates of SMP, SPP, statutory shared parental pay and statutory adoption pay are £184.03 per week (or 90% of the person's average weekly earnings if that is less).

SMP is payable for a maximum of 39 weeks. The date the baby is due, as shown on the MATB1 certificate, determines the maternity pay period entitlement and not the date the baby is born. The rates of SMP are as follows:

- first six weeks at 90% of AWE (see below)
- up to a further 33 weeks at the lower of:

- 90% of AWE
- £187.18 for 2025/26.

SMP is treated as normal pay.

Average weekly earnings (AWE)

AWE need to be calculated for two purposes:

- to determine if the employee is entitled to SMP (earnings must be above the LEL)
- to establish the rate of SMP.

The average is calculated by reference to the employee's relevant period. This is based on an eight week period up to the end of the qualifying week, which is 15 weeks before the baby is due. In some instances, subsequent pay rises have to be taken into account when calculating SMP. Earnings, for this purpose, are the same as for Class 1 NICs and include SSP.

Recovery of SMP

92% of SMP paid can be recovered by deduction from the monthly PAYE payments.

Employers may qualify for Small Employers' Relief (SER). SER is 100% of SMP plus 3% compensation.

To qualify for SER, the current limits are:

- total gross Class 1 NICs for the employee's qualifying tax year must be less than £45,000
- the employee's qualifying tax year is the last complete tax year that ends before the start of her qualifying week.

Glossary of terms

Week baby due

The week in which the baby is expected to be born. This starts on a Sunday.

Qualifying week (QW)

The 15th week before the week the baby is due.

The week the baby is due and the QW are easy to establish using software or online calculators which are available through gov.uk basic PAYE tools.

Maternity Pay Period (MPP)

The period of up to 39 weeks during which SMP can be paid.

MATB1

Maternity certificate provided by a midwife or doctor. This is available up to 20 weeks before the baby is due. SMP cannot be paid without this.

Ordinary Statutory Paternity Pay (OSPP)

OSPP is paid to partners who take time off to care for the baby or support the mother within the first year after birth. OSPP was previously known as SPP.

It is available to the:

- father
- husband or partner of the mother (or adopter)
- child's adopter
- intended parent (if they're having a baby through a surrogacy arrangement)

The partner must have:

- given 28 days' notice of their paternity leave (unless with good reason)
- provided a declaration of family commitment on form SC3 or an employer's own form
- been employed continuously for 26 weeks up to and including their qualifying week (in the case of adoption, the qualifying week is any day during the week of being matched with a child)
- had average weekly earnings above the LEL in the relevant period.

The amount payable

OSPP is payable for a maximum of two weeks:

For babies due before 7 April 2024 it had to be taken as a block either one week or a complete fortnight but for babies due on or after 7 April 2024 the employee can take two weeks together or two separate blocks of one week.

It is paid at the following rates:

- the lower of:

- 90% of AWE
- £187.18 for 2025/26.

OSPP is treated as normal pay.

The calculation of AWE and the recovery of OSPP are subject to the same rules as for SMP.

Fathers have the right to take unpaid leave to attend up to two antenatal appointments.

Adoptive parents

To qualify for Statutory Adoption Pay (SAP), an employee must meet the same earnings and service criteria as an employee seeking to qualify for SMP. An employee must provide his or her employer with evidence of the adoption and a declaration that he or she has elected to receive SAP. HMRC form SC4 provides a declaration form that can be used. A matching certificate from the adoption agency must be produced to the employer. SAP is paid at the same rates as SMP and follows the same rules with regard to recovery.

Shared Parental Leave (SPL)

SPL is available to parents whose babies are due on or after 5 April 2015. In the case of adoptions, SPL applies in relation to children matched with a person or placed for adoption on or after 5 April 2015.

Employed mothers are still entitled to 52 weeks of maternity leave. The mother can curtail her right to SMP and leave and opt to take SPL and Shared Parental Pay (ShPP). SPL and ShPP will be available provided the parents satisfy the eligibility requirements. The main elements of the scheme are:

- in the 52 week period there will be two weeks' compulsory Statutory Maternity Leave (SML) (four weeks if they are manual workers) which the mother must take
- eligible parents will then be able to share the remaining leave and pay in the form of ShPP and SPL between themselves as they choose
- fathers are still entitled to two weeks of OSPP basic paternity leave
- mothers with partners (who must also meet the qualifying conditions) are able to end the mother's leave and pay and share the untaken balance as SPL and ShPP
- employees who take SPL are protected from less favourable treatment as they will have the right to return to the same job if the total leave taken is 26 weeks or less in aggregate, even if the leave is taken in discontinuous blocks
- any subsequent leave will attract the right to return to the same job, or if that is not reasonably practicable, a similar job

- it is up to the parents how they share SPL – they can take it in turns or take time off together, provided they take no more than 52 weeks of this leave, combined in total
- additional paternity leave and pay was abolished for babies due from 5 April 2015
- ShPP is calculated in the same way as SMP.

Plans to extend SPL to grandparents

Proposals have been announced to extend SPL to allow grandparents to take time off work. The system of shared grandparental leave will allow a mother to share her leave with one nominated working grandparent. SPL is currently limited to the mother's partner. No start date has been set for this extension.

How we can help

As the scheme payments are statutory it is important that rules are adhered to and we will be more than happy to provide you with assistance or any additional information required. Please do not hesitate to contact us.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Statutory Residence Test

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

The concept of residence in the United Kingdom is fundamental to the determination of UK tax liability for any individual. The Statutory Residence Test (SRT) provides, through a series of tests, a definitive process to determine the UK residence status of any individual. That status applies for income tax, capital gains tax and inheritance tax purposes.

Once that status has been established then other rules determine the extent of an individual's liability to UK taxes. These other rules may include not just UK statute but also double tax treaties with other countries. These rules are not covered in this factsheet.

Counting days

The SRT relies heavily on the concept of counting 'days of presence' in the UK in the relevant tax year and so it is important to understand what this term means. The basic rule is a day of presence is one where the individual was in the country at midnight. There are two exceptions to this:

- the individual only arrives as a passenger on that day and leaves the UK the next day and in between does not engage in activities that are to a substantial extent unrelated to their passage through the UK and
- the individual would not be present in the UK at the end of the day but for exceptional circumstances beyond their control which prevent them from leaving and they would intend to leave as soon as those circumstances permit.

A further rule applies where an individual has been resident in the UK in at least one of the three previous tax years and has at least three 'ties' with the UK. It will then be necessary to add to the total of 'midnight days' the excess over 30 of any other days where the individual spent any time at all in the UK.

Three tests

The SRT is based on a series of three tests which must be considered in a particular order in every case. The tests are applied to the facts in the 'relevant tax year' i.e. the year for which residence status is being determined:

- first consider the Automatic Overseas Test (AOT). If this test is satisfied the individual will be not resident in the UK in the relevant tax year and no further tests are required. If the AOT is not satisfied then move on to
- the Automatic Residence Test (ART). If this test is satisfied the individual will be resident in the UK in the relevant tax year and no further tests are required. If the test is not satisfied move on to
- the Sufficient Ties Test (STT). If this test is satisfied the individual will be resident in the UK and if it is not satisfied they will be not resident.

The detailed conditions relating to each test are discussed below. There are further tests which only apply if the individual has died in the year but these are not dealt with here.

The Automatic Overseas Test

There are three possible tests in the AOT and if an individual satisfies any one of these they will be not resident in the UK in the relevant tax year. The conditions are that the individual:

- was resident in the UK in one or more of the previous three tax years and they are present in the UK for fewer than 16 days in the relevant tax year
- was not resident in the UK in all of the previous three tax years and they are present in the UK for fewer than 46 days in the relevant tax year
- works full time abroad and they are present in the UK for fewer than 91 days in the relevant tax year and no more than 30 days are spent working (currently defined as more than three hours) in the UK in the tax year.

The first two tests are simply based on a day count and ignore the existence of other factors such as other links with the UK like the availability of accommodation in the UK.

There are conditions for the third test which need to be considered by those planning to go abroad to work either as an employee or on a self-employed basis. Obviously the days of presence and the working days must be considered carefully. In addition it should be noted that:

- the individual must work 'sufficient overseas hours' which are calculated over the tax year. This equates to an average of 35 hours a week over the whole period of absence. Account can be taken of a range of factors such as holidays and sick leave to effectively improve the average
- working days in the UK do not have to be the same as the days of presence so a day where there is UK work but the individual leaves the UK before the end of the day may well count as a working day.

HMRC will expect evidence to be provided if it is claimed that the time limit for a working day has not been exceeded.

The way in which the subsequent tests are structured mean that it is really important that a working expatriate can pass the AOT and be treated as not resident otherwise they are likely to find a real problem under the later tests.

The Automatic Residence Test

If the AOT is not met then the individual must next consider the conditions of the ART. This test will be satisfied if any of the following apply to the individual for the relevant tax year:

- they are present in the UK for 183 days or more in a tax year
- they have a home in the UK and they are present in that home on at least 30 separate days in the relevant year. There must be a period of at least 91 consecutive days during which the home is available and at least 30 of those days must fall within the relevant tax year
- they carry out full time work in the UK for a period of 365 days during which at least 75% of their time is spent in the UK.

The 'home' test may be of real significance because, if that test applies, the number of days in the UK is irrelevant. The legislation makes clear that a home can be a building or part of a building and can include a vessel or vehicle. It must have a degree of permanence or stability to count as a home but specific circumstances may have to be considered. If the individual also has a home or homes abroad, the second test above will not apply if the person spends more than 30 days at each home abroad in the tax year.

The Sufficient Ties Test

If no conclusive answer to residence status has arisen under the first two tests, the individual must then look at how the STT applies to them for the relevant tax year. The test will be satisfied if the individual has sufficient UK ties for that year. This will depend on two basic conditions:

- whether the individual was resident in the UK for any of the previous three tax years and
- the number of days the individual spends in the UK in the relevant tax year.

The STT reflects the principle that the more time someone spends in the UK, the fewer connections they can have with the UK if they want to be not resident. It also incorporates the principle that residence status should adhere more to those who are already resident than to those who are not currently resident.

Under the STT an individual compares the number of days of presence in the UK against five connection factors. Individuals who know how many days they spend in the UK and how many relevant connection factors they have can then assess whether they are resident.

The five ties are summarily set out as:

- a family tie - this will apply if either a spouse or minor child is resident in the UK in the relevant tax year
- an accommodation tie - where there is accommodation which is available for at least 91 days in the tax year and is actually used at least once
- a work tie - where there are at least 40 working days of three hours or more in the UK in the relevant tax year
- a 90-day tie - more than 90 days were spent in the UK in either or both of the two immediately preceding UK tax years and
- a country tie - more time is spent in the UK than in any other single country in the relevant tax year.

An individual who has been resident in the UK in any of the three preceding tax years must consider all five ties and they will be resident if any of the following apply:

Nunn Hayward
Chartered Accountants

Days in UK	Number of ties sufficient to establish residence
16 - 45	at least 4
46 - 90	at least 3
91 - 120	at least 2
121 - 182	at least 1

An individual who has not been resident in any of the three preceding years must consider all the ties apart from the country tie and they will be resident in any of the following situations:

Days in UK	Number of ties sufficient to establish residence
46 - 90	all 4
91 - 120	at least 3
121 - 182	at least 2

Special rules for international transport workers

The SRT rules are adapted where an individual is an 'international transport worker' This is defined as someone who:

- holds an employment, the duties of which consist of duties to be performed on board a vehicle, aircraft or ship, while it is travelling or
- carries on a trade, the activities of which consist of the provision of services on board a vehicle, aircraft or ship as it is travelling.

In either case substantially all the journeys must be across international boundaries. The individual has to be present on board the respective carrier as it makes international journeys in order to provide those services.

An individual who has some duties on purely domestic journeys will still be regarded as within the definition if the international duties are substantial (probably at least 80%).

Where an individual falls within this group the implications for the SRT are (broadly) that the individual:

- cannot be non-UK resident on the grounds of working full time overseas
- cannot be UK resident on the grounds of working full time in the UK and
- in considering the work day tie for the STT an international transport worker is regarded as doing more than three hours work where any journey that day commences in the UK and fewer than three hours on any other day.

Split year rules

The basic rule will be that if an individual satisfies the conditions of the SRT to be treated as resident for a part of the UK tax year then they are resident for the whole of that year. Special rules will apply in certain circumstances to allow a year of arrival or departure to be split into resident and non-resident parts as appropriate. We shall be pleased to discuss whether your plans or circumstances will be eligible for such treatment.

Anti-avoidance rules

The government wants to ensure that individuals are not able to exploit the rules to become not resident for a short period during which they receive certain types of income or make capital gains. Basically an individual with a history of at least four out of the previous seven years as a sole UK resident will need to maintain not resident status for at least five UK tax years otherwise certain income and all capital gains made in the period of absence will become taxable in the UK in the next year in which they are resident.

How we can help

A change of tax residence is always a major decision and detailed advice is necessary. Please do contact us for any advice you may need.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Tax-Free Childcare

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

The government operates a tax incentive for childcare Tax-Free Childcare (TFC).

Overview

Under TFC the tax relief available is 20% of the costs of childcare up to a total of childcare costs of £10,000 per child per year. The scheme will therefore be worth a maximum of £2,000 per child (£4,000 for a disabled child). Parents are able to apply for TFC for children under 12 (up to 17 for children with disabilities).

To qualify for TFC all parents in the household must generally meet a minimum income level, based on working 16 hours a week at National Minimum Wage or Living Wages rates as appropriate and each earn less than £100,000 a year and not already be receiving support through Tax Credits, Universal Credit or the childcare voucher scheme.

Online account

Parents are able to register with the government and open an online account. The government will then 'top up' payments into this account at a rate of 20p for every 80p that families pay in.

Self-employed

Self-employed parents are able to get support with childcare costs using the TFC scheme, unlike the employer supported childcare voucher scheme. To support newly self-employed parents, the government has introduced a 'start-up' period. During this period a newly self-employed parent will not have to earn the minimum income level.

TFC and service issues

All parents of eligible children can apply for both 30 hours of free childcare and TFC via a single website. Parents can apply online through the childcare service which can be accessed via the Childcare Choices website.

Childcare providers

Only childcare providers registered with a regulator can receive TFC payments.

How does this relate to employer supported childcare?

Employer Supported Childcare (ESC) closed to new entrants in October 2018. ESC continues to be available for current members if they wish to remain in it or they can switch to TFC but parents cannot be in both ESC and TFC at the same time.

How we can help

If you would like to discuss childcare in further detail, please do not hesitate to contact us.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Taxation of the Family

Individuals are subject to a system of independent taxation so spouses and civil partners are taxed separately. This can give rise to valuable tax planning opportunities. Furthermore, the tax position of any children is important.

Marriage and civil partnership breakdowns can also have a considerable impact for tax purposes.

We highlight below the main areas of importance where advance planning can help to minimise overall tax liabilities.

It is important that professional advice is sought on specific issues relevant to your personal circumstances.

Setting the scene

Married couples and civil partners

Independent taxation means that spouses and civil partners are taxed separately on their income and capital gains. The effect is that both have their own allowances, savings and basic rate tax bands for income tax, annual exemption for capital gains tax purposes and are responsible for their own tax affairs.

Children

A child is an independent person for tax purposes and is therefore entitled to a personal allowance and the savings and basic rate tax band before being taxed at the higher rate. It may be possible to save tax by generating income or capital gains in the children's hands.

Marriage and civil partnership breakdown

Separation, divorce and dissolution can have significant tax implications. In particular, the following areas warrant careful consideration:

- available tax allowances
- transfers of assets between spouses.

Tax planning for married couples and civil partners

Income tax allowances and tax bands

Everyone is entitled to a basic personal allowance. This allowance cannot however be transferred between spouses and civil partners except for the circumstances outlined below.

Marriage Allowance

Married couples and civil partners may be eligible for a Marriage Allowance (MA).

The MA enables spouses and civil partners to transfer a fixed amount of their personal allowance to their partner. The option to transfer is not available to unmarried couples.

The option to transfer is available to couples where neither pays tax at the higher or additional rate. If eligible, one partner is able to transfer 10% of their personal allowance to the other partner, which is currently £1,260.

Couples are entitled to the full benefit in their first year of marriage.

For those couples where one person does not use all of their personal allowance the benefit will be worth approximately £250.

Eligible couples can apply for the MA at www.gov.uk/marriage-allowance. The spouse or partner with the lower income applies to transfer some of their personal allowance by entering some basic details.

Those who do not apply via the Government Gateway will be able to make an application at a later date and still receive the allowance.

If either spouse or civil partner were born before 6 April 1935, then a Married Couple's Allowance (MCA) is available. For marriages before 5 December 2005 the allowance is based on the husband's income, for marriages and civil partnerships formed after that date the allowance is based on the income of the highest earner. It is not possible to claim both the MA and the MCA; typically the MCA will provide higher relief where available.

Joint ownership of assets

In general, married couples and civil partners should try to arrange their ownership of income producing assets so as to ensure that personal allowances are fully utilised and any higher rate liabilities minimised.

Generally, when a couple jointly own assets, any income arising is assumed to be shared equally for tax purposes. This applies even where the asset is owned in unequal shares unless an election is made to split the income in proportion to the ownership of the asset.

Married couples and civil partners are taxed on dividends from jointly owned shares in 'close' companies according to their actual ownership of the shares. Close companies are broadly those owned by the directors or five or fewer people. For example if a spouse is entitled to 95% of the income from jointly owned shares they will pay tax on 95% of the dividends from those shares. This measure is designed to close a perceived loophole in the rules and does not apply to income from any other jointly owned assets.

We can advise on the most appropriate strategy for jointly owned assets so that tax liabilities are minimised.

Capital Gains Tax (CGT)

Each spouse's CGT liability is computed by reference to their own disposals of assets and each is entitled to their own annual exemption of £3,000 for 2024/25 and 2025/26 (£6,000 for 2023/24). Some limited tax savings may be made by ensuring that maximum advantage is taken of any available capital losses and annual exemptions.

This can often be achieved by transferring assets between spouses before sale - a course of action generally having no adverse CGT or Inheritance Tax (IHT) implications. Advance planning is vital, and the possible income tax effects of transferring assets should not be overlooked.

Further details of how CGT operates are outlined in the factsheet Capital Gains Tax.

Inheritance Tax (IHT)

When a person dies IHT becomes due on their estate. Some lifetime gifts are treated as chargeable transfers but most are ignored providing the donor survives for seven years after the gift.

The rate of IHT payable is 40% on death and 20% on lifetime chargeable transfers. The first £325,000 is not chargeable and this is known as the nil rate band and is frozen at this amount until April 2030.

Transfers of property between spouses are generally exempt from IHT. Rules allow any nil rate band unused on the first death to be used when the surviving spouse dies.

The amount of the nil rate band available for transfer will be based on the proportion of the nil rate band which was unused when the first spouse died. Key documentary evidence will be required for a claim, so do get in touch to discuss the information needed.

IHT residence nil rate band

An additional nil rate band is available where an interest in a main residence passes to direct descendants. The amount of relief is £175,000 for 2024/25 and 2025/26 and is frozen at this amount until 2030. For many married couples and civil partners the relief is effectively doubled as each individual has a main nil rate band and each will potentially benefit from the residence nil rate band.

The additional band can only be used in respect of one residential property which does not have to be the main family home but must at some point have been a residence of the deceased. Restrictions apply where estates are in excess of £2 million.

Where a person died before 6 April 2017, their estate will not qualify for the relief. A surviving spouse may be entitled to an increase in the residence nil rate band if the spouse who died earlier has not used, or was not entitled to use, their full residence nil rate band. The calculations involved are potentially complex but the increase will often result in a doubling of the residence nil rate band for the surviving spouse.

The residence nil rate band may also be available when a person downsizes or ceases to own a home on or after 8 July 2015 where assets of an equivalent value, up to the value of the residence nil rate band, are passed on death to direct descendants.

Taxpayers now have three nil rate bands to consider. The standard nil rate band has been a part of the legislation from the start of IHT in 1986. In 2007 the ability to utilise the unused nil rate band of a deceased spouse was introduced, enabling many surviving spouses to have a nil rate band of up to £650,000.

From 6 April 2020 some surviving spouses are able to add £350,000 in respect of the residence nil rate bands to arrive at a total nil rate band of £1 million. However this will only be achieved by careful planning and, in some cases, it may be better for the first deceased spouse to have given some assets to the next generation and use up some or all of the available nil rate bands.

For many individuals, the residence nil rate band will be important but individuals will need to revisit their wills to ensure that the relief will be available and efficiently utilised.

Gifts

A gift for family maintenance does not give rise to an IHT charge. This would include the transfer of property made on divorce under a court order, gifts for the education of children or maintenance of a dependent relative.

Gifts in consideration of marriage are exempt up to £5,000 if made by a parent with lower limits for other donors.

Small gifts to individuals not exceeding £250 in total per tax year per recipient are exempt. The exemption cannot be used to cover part of a larger gift.

Gifts which are made out of income which are typical and habitual and do not result in a fall in the standard of living of the donor are exempt. Payments under deed of covenant and the payment of annual premiums on life insurance policies would usually fall within this exemption.

Children

Use of allowances and lower rate tax bands

It may be possible for tax savings to be achieved by the transfer of income producing assets to a child so as to take advantage of the child's personal allowance.

This cannot be done by the parent if the annual income arising is above £100. The income will still be taxed on the parent. However, transfers of income producing assets by others (eg grandparents) will be effective.

A parent can however allow a child to use any entitlement to the CGT annual exemption by using a 'bare trust'.

Universal Credit

Universal Credit may be available to some families. To see whether you are entitled to claim visit www.gov.uk/universal-credit.

Junior Individual Savings Accounts (Junior ISA)

The Junior ISA is available for UK resident children under the age of 18 who do not have a Child Trust Fund account. Junior ISAs are tax advantaged and have many features in common with existing ISAs. They are available as cash or stocks and share-based products. The annual subscription limit is £9,000 for 2025/26 (£9,000 for 2024/25).

High Income Child Benefit Charge

A charge applies to a taxpayer who has adjusted net income over £60,000 in a tax year where either they or their partner are in receipt of Child Benefit for the year. Where both partners have adjusted net income in excess of £60,000 the charge will apply to the partner with the higher income.

The income tax charge will apply at a rate of 1% of the full Child Benefit award for each £200 of income between £60,000 and £80,000. The charge on taxpayers with income above £80,000 will be equal to the amount of Child Benefit paid.

Child Benefit claimants can elect not to receive Child Benefit if they or their partner do not wish to pay the charge.

Example

The Child Benefit for two children amounts to £2,212.
The taxpayer's adjusted net income is £68,000.
The income tax charge will be £885.
This is calculated as £22.12 for every £200 above £60,000.
For a taxpayer with adjusted net income of £80,000 or above the income tax charge will equal the Child Benefit.

Marriage and civil partnership breakdown

Maintenance payments

An important element in tax planning on marriage breakdown used to involve arrangements for the payment of maintenance. Generally no tax relief is due on maintenance payments.

Asset transfers

Marriage and civil partnership breakdowns often involve the transfer of assets between partners. Unless the timing of any such transfers is carefully planned there can be adverse CGT consequences.

If an asset is transferred between a husband and wife or civil partners who are living together, the asset is deemed to be transferred at a price that does not give rise to a gain or a loss. This treatment continues for three years after the tax year in which the separation takes place.

Nunn Hayward
Chartered Accountants

The spousal exemption for IHT continues to apply for any transfers which take place before the granting of a decree absolute on divorce. Transfers after this date may still not be a problem as often there is no gratuitous intent.

How we can help

Some general points can be made when planning for efficient taxation of the family.

Any plan must take into account specific circumstances and it is important that any proposed course of action gives consideration to all areas of tax that may be affected by the proposals.

Tax savings can only be achieved if an appropriate course of action is planned in advance. It is therefore vital that professional advice is sought at an early stage. We would welcome the chance to tailor a plan to your own personal circumstances so please do contact us.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
The National Living Wage and the National Minimum Wage

The National Minimum Wage (NMW) and National Living Wage (NLW) are the legal minimum wage rates that must be paid to employees.

There are different levels of NMW and NLW, depending on your age and whether you are an apprentice. The NMW is available to those of at least school leaving age. The age at which the NLW is available has changed in recent years, but from 1 April 2024, the NLW is available to those aged 21 and over. From 1 April 2023, it was available to those aged 23 and over and from 1 April 2021 it was available to those aged 25 and over.

The NLW and NMW rates change every 1 April. The table below shows the minimum wage rates applying from 1 April 2025:

	Apprentices	16 and 17	18 - 20	21 and over
National Minimum Wage	£7.55	£7.55	£10.00	-
National Living Wage	-	-	-	£12.21

There are separate minimum rates of pay for agricultural workers. Visit www.gov.uk/agricultural-workers-rights/pay-and-overtime for more information.

Apprentices

The apprentice rate applies to:

- apprentices aged under 19
- apprentices aged 19 or over and in the first year of their apprenticeship.

Key questions

Who is covered by the NMW and NLW?

NMW and NLW apply to all workers, with certain exceptions such as:

- those who are genuinely self-employed
- workers who are still of compulsory school age
- company directors
- volunteers and voluntary workers
- family members living in the family home and working in the family business
- students doing work experience as part of a higher or further education or a work placement up to a year.

There are more exceptions to the NMW and NLW. Visit the following link for further guidance: www.gov.uk/national-minimum-wage/who-gets-the-minimum-wage.

How is a worker's pay calculated?

There are complex rules for determining a worker's pay for NMW and NLW purposes.

Benefits in kind, tips and gratuities, reimbursed expenses and certain allowances are not included. Special rules apply where an employer provides accommodation. Enhanced payments for particular work will not count, but incentive or profit related payments will be included. Visit the following link for full guidance on calculating a worker's pay for NMW and NLW purposes: https://www.gov.uk/guidance/calculating-the-minimum-wage.

What working time counts for the minimum wage?

The rules on what counts as working time for which the minimum wage is payable varies depending on how the worker is paid, such as whether the worker is paid an annual salary or paid by the hour. Job-related travelling and training time is included. Periods of holiday or absence do not count (even though holiday pay is now obligatory), nor does time taken as rest breaks or industrial action. Special rules apply for workers who perform sleep in shifts. Visit the following link for full guidance on the working hours for which the minimum wage must be paid: https://www.gov.uk/guidance/calculating-the-minimum-wage/working-hours-for-which-the-minimum-wage-must-be-paid.

What is the fair piece rate?

The fair piece rate applies where a worker is classed as doing output work (paid per item produced or task performed). It can only be used in limited situations when the employer does not know the hours the worker does. Employers must establish the average hourly output rate of an average worker. To then calculate the fair piece rate, the worker's NMW hourly rate is divided by the average hourly output rate that was calculated, and the result is multiplied by 1.2.

What about family businesses?

Although there is an exemption for family members working in the family business and residing in the family home of the employer the regulations specifically refer to the employer's family. If the family business (the employer) is a limited company, then it does not have a family. Even if the family business operates as a sole trader or partnership, the only family members exempted are those who actually live in the home of the employer.

What about company directors?

In common law, company directors are classed as office holders and can do work and be paid for it in that capacity. This is true no matter what sort of work they do and how it is rewarded.

The minimum wage does not apply to office holders, unless they also have contracts which make them workers.

It is unlikely that a company director will have an implied contract which makes him a worker. The rights and duties of an office are defined by that office, and it exists independently of the person who fills it. Directors can be removed from their office by a simple majority of the votes cast at a general meeting of the company. This contrasts with the rights and duties of an employee which are defined in a contract of employment.

What records have to be kept?

Employers must keep sufficient records to demonstrate that the minimum wage has been paid. These should be kept in a format which enables the information kept about a worker in respect of an individual pay reference period to be produced in a single document.

Since 1 April 2021 records should be kept for a minimum of six years.

What rights does the worker have?

If a worker thinks that they have been paid below the minimum wage, they should first discuss with their employer and can ask the employer to produce their payment records. If the employer has paid the worker below the minimum wage, the worker must be paid any arrears.

The worker can also speak to Acas which provides free, impartial and confidential advice to employers, workers, employees and their representatives. Help is available by contacting their Pay and Work Rights Helpline: 0300 123 1100.

Callers can be assisted in over 100 different languages.

Are there any criminal offences relating to the minimum wage?

Yes, there are six criminal offences:

- refusal or wilful neglect to pay the minimum wage
- failing to keep or preserve minimum wage records
- causing or allowing a materially false entry to be made in minimum wage records
- producing or furnishing materially false records or information
- intentionally delaying or obstructing a compliance officer
- refusing or neglecting to answer questions, give information or produce documents to a compliance officer.

Employers who deliberately fail to pay the minimum wage may face a potentially unlimited fine.

Enforcement

The minimum wage is enforced by HMRC so employers will need to make sure they are paying their staff correctly. HMRC compliance officers can carry out inspections of employers instigated through either a worker complaint or a targeted investigation by HMRC.

HMRC have various powers to obtain the information required for their inspection, but the HMRC compliance officer must show an identity document on request.

In addition, HMRC is able to use the search and seize powers in the Police and Criminal Evidence Act 1984 when investigating criminal offences under the National Minimum Wage Act 1998.

Notice of underpayment

If an HMRC compliance officer believes that an employer has failed to pay at least the minimum wage to a worker, HMRC may serve a notice of underpayment requiring the employer to:

- repay arrears of the minimum wage to each worker named on the notice
- pay a penalty.

The penalty can be up to 200% of the underpayment, up to a maximum penalty of £20,000 per worker. The penalty will be reduced by 50% if the employer fully complies with all the terms of the notice of underpayment within 14 days of service of the notice.

The employer may appeal against the notice of underpayment within 28 days of service of the notice. An appeal must be made to the employment tribunal (or industrial tribunal in Northern Ireland). If the employer does not comply with the notice of underpayment, HMRC can take a case to a tribunal or County Court (or Scottish equivalent) on behalf of the worker, or seek a criminal prosecution.

In addition to financial penalties, the government periodically publishes names of employers who have not complied with the minimum wage laws.

How we can help

We will be more than happy to provide you with assistance or any additional information required. Please contact us if you would like more information.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET

The New Tax Status Rules: IT, CGT and IHT

01753 888211 | info@nhllp.com | www.nhllp.com

This factsheet sets out the new rules for UK Income Tax (IT), Capital Gains Tax (CGT) and Inheritance Tax (IHT) as UK Domicile will no longer be used as a determinant factor in tax status for direct tax purposes.

Residence only, will be used to determine tax status.

The newly-resident

From 6 April 2025, all UK residents will be taxed on a worldwide arising basis but a new regime for eligible foreign income and gains (FIG) will be available to individuals for the first four years of commencing UK tax residence, provided they have either not been UK resident at all previously or following a period of ten years of non-residence.

Individuals who make a claim (via the self assessment return) to use the new four-year FIG rules will not pay any tax on FIG arising in those four years. An individual's ability to qualify for the FIG regime will be determined by whether they are UK resident under the Statutory Residence Test (SRT).

Example

Tom became resident in the UK in 2025/26, for the first time. He will be able to claim under the new 4-year FIG regime for 2025/26.

In 2026/27 and 2027/28 he is non-UK resident but resumes residence again in 2028/29.

This is treated as his year 4 so again he will be able to decide whether to claim under FIG or not.

The position to 5 April 2025

An individual who was resident in the UK but was not UK domiciled (referred to as a 'non-dom') could opt to be taxed on what is termed the 'remittance basis' in respect of income and capital gains arising outside the UK. What this means is that instead of being taxed on their actual income/gains arising in the year, they were taxed on the amount of that income/gains actually brought into the UK in the tax year.

The impact of claiming the remittance basis

In all tax years where a claim for the remittance basis applies, an individual will automatically forfeit their personal allowance for income tax purposes and their annual exemption for capital gains tax (CGT). This will obviously impact on their total tax liability including any UK income/gains. However, an individual can automatically benefit from the remittance basis without making a claim and therefore retain their allowances when they remit to the UK all but a maximum of £2,000 of their income and gains arising abroad in the year.

Example

Jan, who is domiciled in Poland but who has been living in the UK for five years, has rental income arising from the letting of property in Poland. Let's pose two different scenarios assuming his overseas income is £5,000.

Scenario 1: He remits £1,000 to the UK – he can pay tax on the full £5,000 as it arises and he will retain his personal allowance against that and any UK source income. If he claims the remittance basis he will pay tax on £1,000 but will lose his personal allowance against that and any UK source income.

Scenario 2: He remits £3,000 to the UK. He can have the benefit of the remittance basis and pay tax on only £3,000 because he has left no more than £2,000 unremitted. He will retain his personal allowance.

Up until 5 April 2025, a special charge is payable known as the Remittance Basis Charge for longer term non-UK domicile residents who wish to remain on the remittance basis. This applies to an individual in a tax year where they have been resident for seven out of the preceding nine years and the charge is £30,000. The charge increases to £60,000 for those who have been resident in the UK for at least 12 of the previous 14 tax years.

The transition from 6 April 2025

From 6 April 2025, all UK residents, not newly resident, will be taxed on a worldwide arising basis but there will be a 'Temporary Repatriation Facility' (TRF) available to those who have been subject to the remittance basis in any tax year up to and including 2024/25. This is to encourage individuals to remit to the UK their FIG which arose in earlier periods and were not taxed in the UK in previous years following a claim for the remittance basis.

The TRF will be available for three years and designated amounts will be charged to tax at a rate of 12% in 2025/26 and 2026/27 and 15% in 2027/28. This will provide a significant tax saving given the differential between these special tax rates and normal rates (up to 45%).

To use the TRF taxpayers will need to designate amounts or assets ('designated funds') and pay the relevant TRF charge in relation to them. Interestingly, there is no requirement for amounts to actually be remitted during the year in which they are designated or in any later tax year. Identifying and designating the funds however is a complex area and advice as to how to proceed is recommended.

Once the TRF opportunity has ended, all UK residents except for the newly resident, will be assessed on a worldwide basis for income and gains.

New CGT rebasing opportunity

UK resident individuals who are not newly resident will be subject to CGT on foreign gains in the normal way.

Under transitional rules, past remittance basis users will, for disposals on or after 6 April 2025, be entitled to rebase any foreign asset personally held at 5 April 2017 to its market value on 5 April 2017. This is provided the individual has never been UK actual or deemed domiciled and that they have made an actual past remittance basis claim for 2017/18 onwards. Further, the asset must have been situated outside the UK from 6 March 2024 to 5 April 2025.

What is a remittance?

Two conditions must generally be in place for a remittance to arise. Firstly property, money, or consideration for a service, must be brought into the UK for the benefit of a relevant person and secondly, the funds for that property etc must be derived directly or indirectly from FIG. The rules are widely drawn and in this current overhaul the core definition will be further extended to cover the use of FIG **outside** the UK for the benefit in the UK of a relevant person.

Some examples will help to explain the basic scope.

Example

Alex, a wealthy Canadian, lives in the UK with his wife and young children. He has a significant bank deposit in Jersey which generates a large amount of income each year. Any of the following uses of that income would constitute a remittance for UK tax purposes:

- he buys an expensive car in Germany and brings it into the UK
- he opens a bank account in the UK for each of his children with funds from Jersey
- he sends his wife on an expensive weekend at a spa and the bill for the break is sent direct to Jersey for settlement
- he uses a credit card in the UK which is settled on a monthly basis out of the Jersey income.

There are some exceptions for example clothes, watches and jewellery for personal use and other goods up to a value of £1,000.

A more indirect route is also caught

In the past it had been possible to use a route known as 'alienation' to avoid the remittance basis. This would involve an individual giving someone else their overseas income and then that individual bringing the money into the UK. In the recipient's hands it would have represented capital and the remittance would have been avoided. Now such a route is not possible. Any attempt at 'alienation' which involves the funds ultimately being brought into the UK for the benefit of a relevant person will be caught as a remittance by the taxpayer. This rule is likely to cause some difficult situations.

Example

Alex gives some of the Jersey income to an adult son Tom. Tom uses the money to pay for a UK school trip for his own son. The grandson is a relevant person as far as Alex is concerned and this payment will constitute a remittance on which Alex is taxable in the UK.

Relief for business investment

Where a non-dom remits funds to the UK which are then invested in a qualifying business in the UK those funds are not treated as a remittance so the remittance basis rather than arising may be more attractive. The rules for Business Investment Relief (BIR) are detailed but the key elements are:

- the investment must be in shares or loans to a trading company or a company which will invest in trading companies, or a company which is a combination of the two
- the company must be unquoted
- the non-dom (or any relevant person in relation to the non-dom) must not receive any benefit from the company which is directly or indirectly attributable to the investment
- when the investment is subsequently realised the non-dom will have 45 days to either reinvest in another qualifying company or remove the funds from the UK otherwise they will be treated as a remittance in that later year.

During the TRF period 2025/26 to 2027/28 investments made with non-designated FIG which arose on or before 5 April 2025 will remain eligible for BIR claims.

Any investments made with already designated amounts will be non-qualifying investments for the purposes of the BIR rules.

From 6 April 2028, when the TRF period ends, it will not be possible to claim BIR on any new investments, or reinvestments.

The new rules for IHT from 6 April 2025

For IHT, a 'long term' UK resident (LTR) will be within worldwide (WW) scope for both lifetime transfers and the death estate. For non-long term residents only UK assets will be chargeable.

An individual is a LTR for the whole tax year if they were UK resident for at least 10 of the previous 20 tax years immediately preceding the tax year in which a chargeable event for IHT (including death) arises.

An individual will not be treated as LTR for IHT purposes in the year following 10 consecutive years of non-residence, even if they return to the UK. The test is effectively reset.

The time an individual remains in scope after leaving the UK will be shortened where they have only been resident in the UK for between 10 and 19 years as follows:

- For those who are resident between 10 and 13 years, they will remain in scope for three tax years.
- This will then increase by one tax year for each additional year of residence.

Example
Melissa has been a UK resident for 13 out of the last 20 years in 2025/26 so is within UK WW IHT scope.
She will remain a UK resident for IHT for three years, if she then leaves the UK.
If she had been resident 15 out of the last 20 years, then she will remain a UK resident for IHT for five years.
If she had been resident 17 out of the last 20 years, then she will remain a UK resident for IHT for seven years.

An individual will not be treated as long-term resident for IHT purposes in the year following ten consecutive years of non-residence, even if they return to the UK.

There will be transitional rules for non-domiciled or deemed domiciled individuals who are non-resident in 2025/26.

Spouses and LTR

Where one spouse (or registered civil partner) is LTR and one is not LTR, this **may** create a restriction on the inter-spouse exemption. Only £325,000 is available as a combined lifetime and death exemption where the LTR spouse gifts to the non LTR spouse. It does not apply in other scenarios such as where both spouses are not LTR. However, where the restriction does impact an election can be made by the non LTR spouse to become LTR. The impact of the election is that the unlimited exemption is now available but both are now on a worldwide scope. Once made the election is irrevocable unless there is ten years of non UK residence.

How can we help

Every non-dom must give very careful consideration to their new UK tax position and take extreme care in planning their foreign income and capital gains or their IHT position.

Each individual's situation is going to require different considerations. Please contact us if you would like to discuss how these rules impact on you and the steps you can take to mitigate their impact.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Travel and Subsistence for Directors and Employees

Travel and subsistence expenditure incurred by or on behalf of employees gives rise to many problems.

We highlight below the main areas to consider in deciding whether tax relief is available on travel and subsistence.

Employees with a Permanent Workplace

Many employees have a place of work which they regularly attend and make occasional trips out of the normal workplace to a temporary workplace. Often an employee will travel directly from home to a temporary workplace and vice versa.

An employee can claim full tax relief on business journeys made.

Business journey

A business journey is one which either involves travel:

- from one place of work to another or
- from home to a temporary workplace or
- to home from a temporary workplace.

Journeys between an employee's home and a place of work which he or she regularly attends are not business journeys. These journeys are 'ordinary commuting' and the costs of these have to be borne by the employee. The term 'permanent workplace' is defined as a place which the employee 'regularly' attends. It is used in order to fix one end of the journey for ordinary commuting. Home is the normal other end of the journey for ordinary commuting.

Example 1

An employee usually commutes by car between home in York and a normal place of work in Leeds. This is a daily round trip of 48 miles.
On a particular day, the employee instead drives from home in York to a temporary place of work in Nottingham. A round trip of 174 miles.
The cost here is the cost of the travel undertaken (174 miles). A deduction would be available for that amount.

Example 2

An employee who normally drives 40 miles in a northerly direction to work is required to make a 100 mile round trip south to a client's premises. His employer reimburses him for the cost of the 100 miles trip.
A deduction would be available for that amount.

Subsistence payments

Subsistence includes accommodation and food and drink costs whilst an employee is away from the permanent workplace. Subsistence expenditure is specifically treated as a product of business travel and is therefore treated as part of the cost of that travel.

Anti-avoidance

Some travel between a temporary workplace and home may not qualify for relief if the trip made is 'substantially similar' to the trip made to or from the permanent workplace.

'Substantially similar' is interpreted by HMRC as a trip using the same roads or the same train or bus for most of the journey.

Temporary postings

Where an employee is sent away from his permanent workplace for many months, the new workplace will still be regarded as a temporary workplace if the posting is either:

- expected to be for less than 24 months, or
- if it is expected to be for more than 24 months, the employee is expected to spend less than 40% of his working time at the new workplace.

The employee must still retain his permanent workplace.

Example 3

Edward works in New Brighton. His employer sends him to Wrexham for 1.5 days a week for 28 months.
Edward will be entitled to relief. Any posting over 24 months will still qualify provided that the 40% rule is not breached.

Site-based Employees

Some employees do not have a normal place of work but work at a succession of places for several days, weeks or months. Examples of site-based employees include construction workers, safety inspectors, computer consultants and relief workers.

A site-based employee's travel and subsistence can be reimbursed tax free if the period spent at the site is expected to be, and actually is, less than two years.

There are anti-avoidance provisions to ensure that the employment is genuinely site-based if relief is to be given. For example, temporary appointments may be excluded from relief where duties are performed at that workplace for all or almost all of that period of employment. This is aimed particularly at preventing manipulation of the 24 month limit through recurring temporary appointments.

Other Employees with no Permanent Workplace

Travelling appointments

For some employees, travelling is an integral part of their job. For example, a travelling salesman who does not have a base at which he works, or where he is regularly required to report. Travel and subsistence expenses incurred by such an employee are deductible.

Home based employees

Some employees work at home occasionally, or even regularly. This does not necessarily mean that their home can be regarded as a place of work. There must be an objective requirement for the work to be performed at home rather than elsewhere.

This may mean that another place becomes the permanent workplace for example, an office where the employee 'regularly attends'. Therefore any commuting cost between home and the office would not be an allowable expense. But trips between home and temporary workplaces will be allowed.

If there is no permanent workplace then the employee is treated as a site-based employee. Thus all costs would be allowed including the occasional trip to the employer's office.

The home may still be treated as a workplace under the objective test above. If so, trips between home and any other workplace in respect of the same employment will be allowable.

How we can help

Full tax relief can be given for travel and subsistence costs but there are borderline situations.

We can help you to decide whether an employee can be paid expense payments which are covered by tax relief and do not result in a taxable benefit.

Please note that if you do make payments for which tax relief is not available, there may be PAYE compliance problems if the payments are made free of tax.

Please contact us if you require advice whether payments can be made to employees tax free.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
UK Trusts

Nunn Hayward Chartered Accountants

What are trusts?

Trusts are a long established mechanism which allow individuals to benefit from the assets whilst others (the trustees) have the legal ownership and day to day control over the assets. A trust can be extremely flexible and have an existence totally independent of the person who established it and those who benefit from it.

A person who transfers property into a trust is called a settlor (or truster in Scotland). Persons who enjoy income or capital from a trust are called beneficiaries. Though not very common with English trusts, it is possible for the settlor to appoint a protector, an independent person who oversees the administration of the trust.

Trusts are separate persons for UK tax purposes and have specific rules for all the main taxes. There are also a range of anti-avoidance measures aimed at preventing exploitation of potential tax benefits.

Types of trusts

There are two basic types of trust in regular use for individual beneficiaries:

- life interest trusts (often referred to as interest in possession trusts and in Scotland known as life renter trusts)
- discretionary trusts.

Life interest trusts

A life interest trust has the following features:

- a nominated beneficiary (the life tenant or life renter in Scotland) has an interest in the income from the assets in the trust or has the use of trust assets. This right may be for life or some shorter period (perhaps to a certain age).
- the capital may pass onto another beneficiary or beneficiaries.

A typical example is where a widow is left the income for life and on her death the capital passes to the children.

Discretionary trusts

A discretionary trust has the following features:

- no beneficiary is entitled to the income as of right
- the settlor gives the trustees discretion to pay the income to one, some or all of a nominated class of possible beneficiaries
- income can be retained by the trustees
- capital can be gifted to nominated individuals or to a class of beneficiaries at the discretion of the trustees.

Inheritance tax consequences

Importance of 22 March 2006

Major changes were made in the IHT regime for trusts with effect from 22 March 2006. The old distinction between the tax treatment of discretionary and life interest trusts was swept away. The approach now is to identify trusts which fall in the so-called 'relevant property' regime and those which do not.

Relevant property trusts

Trusts which fall in the relevant property regime are:

- all discretionary trusts whenever created
- all life interest trusts created in the settlor's lifetime after 22 March 2006
- any life interest trust created before 22 March 2006 where a beneficiary changes after 6 October 2008. A key exception exists where a change occurs after 6 October 2008 on the death of a life tenant but the new life tenant is their spouse.

If a relevant property trust is set up in the settlor's lifetime, this may give rise to an immediate charge to inheritance tax at the lifetime rate of 20%. If the value of the gift (and certain earlier gifts) is below £325,000 or is covered by an IHT relief then no tax is payable. Trusts set up under a will attract the normal inheritance tax charge at the death rate of 40% (after reliefs and the nil rate band where available).

Relevant property trusts are charged to tax every ten years (known as the periodic charge) at a maximum rate of 6% of the value of the assets on each tenth anniversary of the setting up of the trust. A fair prorate charge of less than 6% (and often much lower) is also made if assets are appointed out of the trust known as an 'exit charge'.

Benefits of a relevant property trust

Whilst the inheritance tax charges may not appear attractive, the relevant property trust has a significant benefit in that no tax charge will arise when a beneficiary dies because the assets in the trust do not form part of a beneficiary's estate for IHT purposes. There can be significant long-term IHT advantages in using such trusts.

Trusts which are not relevant property

Within this group are:

- life interest trusts created before 22 March 2006 where the pre-2006 beneficiaries remain in place or were changed before 6 October 2008 or where a second spouse has taken over the life interest on the death of the first spouse
- the trust was created after 22 March 2006 under the terms of a will and gives an immediate interest (cannot be replaced by another) in the income to a beneficiary and the trust is neither a bereaved minor's nor a disabled person's trust; or
- the trust is created in the settlor's lifetime or on death for a disabled person.

For pre-22 March 2006, lifetime transfers into a life interest trust, the gift would have been a potentially exempt transfer (PET) and no inheritance tax would have been payable if the settlor survived for seven years. Transfers into a trust on death would be chargeable unless the life tenant was the spouse of the settlor. There is no periodic charge on such trusts. There will be a charge when the life tenant dies because the value of the assets in the trust in which they have an interest has to be included in the value of their own 'settled estate' for IHT purposes.

Capital gains tax consequences

If assets are transferred to trustees, this is considered a disposal for capital gains tax purposes at market value but in many situations any capital gain arising can be deferred and passed on to the trustees.

Gains made by trustees on the disposal of trust assets are chargeable at 24% (20% for disposals before 30 October 2024). Residential property gains are charged at 24% throughout the tax year.

Where assets leave the trust on transfer to a beneficiary who becomes legally entitled to them, there will be a CGT charge by reference to the then market value. Again it may be possible to defer that charge.

Income tax consequences

Life interest trusts are taxed on their income at 8.75% on dividends and 20% on other income. Discretionary trusts pay tax at 39.35% (dividends) and 45% (other income).

Income paid to life interest beneficiaries has an appropriate tax credit available with the effect that the beneficiaries are treated as if they receive the income as the owners of the assets.

If income is distributed at trustee discretion from discretionary trusts, the beneficiaries will receive the income net of 45% tax. They are generally able to obtain refunds of any overpaid tax and if they pay tax at 45%, they will get credit for the tax paid. Refund exceptions may apply in certain settlor trust situations.

Could I use a trust?

Trusts can be used in a variety of situations both to save tax and also to achieve other benefits for the family. Particular benefits are as follows:

- If you transfer assets into a trust in your lifetime you can remove the assets from your estate but could act as trustee so that you retain control over the assets (always remembering that they must be used for the beneficiaries).
- A transfer of family company shares into a trust in lifetime (or on death) can be a way of ensuring that the valuable business property relief is utilised.
- By putting assets into a trust you can give the beneficiary the income from the asset without actually giving them the asset which could be important if the beneficiary is likely to spend the capital or the capital could be at risk from predators such as a divorced spouse.
- Trusts (particularly discretionary trusts) can give great flexibility in directing benefit for different members of the family without incurring significant tax charges.
- If you want to make some IHT transfers in your lifetime but are not sure who you would like to benefit from them, a transfer to a discretionary trust can enable you to reduce your estate and leave the trustees to decide how to make the transfers in later years. It also means that the assets transferred do not now hit the estates of the beneficiaries.

Trust Registration Service

This is an important recent digital administration development, which came about due to Money Laundering Regulations which require countries to have a national register of certain information to fight against money laundering and terrorist financing.

Nunn Hayward
Chartered Accountants

Since 2020, The Trust Registration Service ('TRS') requires all UK non - taxable 'express' trusts (and certain additional non-UK trusts - not considered further here) to register. An express trust is one which is created deliberately by an individual in writing for specific purposes rather than being created by an act of law which is a non express trust. Common examples include but are not restricted to interest in possession and discretionary trusts. Non express trusts include trusts established by a Court or by legislation and provided there is no tax liability are not required to register.

The deadline for registration of new trusts or where changes determine that a trust needs to register is 90 days from creation.

Trusts on the register have to be updated whenever there are certain changes, such as a change in the lead trustee. These changes will also have a 90 day action deadline.

HMRC have published a manual to assist taxpayers - the Trust Registration Service Manual - HMRC internal manual - GOV.UK

How we can help

This factsheet briefly covers some aspects of trusts. If you are interested in providing for your family through the use of trusts or are concerned about whether there are any registration requirements under the TRS please contact us.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
VAT

Nunn Hayward
Chartered Accountants

VAT registered businesses act as unpaid tax collectors and are required to account both promptly and accurately for all the tax revenue collected by them.

The VAT system is policed by HMRC with heavy penalties for breaches of the legislation. Ignorance is not an acceptable excuse for not complying with the rules.

We highlight below some of the areas that you need to consider.

It is however important for you to seek specific professional advice appropriate to your circumstances.

What is VAT?

Scope

A transaction is within the scope of VAT if:

- there is a supply of goods or services
- it was made in the UK
- it was made by a taxable person
- it was made in the course or furtherance of business.

Inputs and outputs

Businesses charge VAT on their sales. This is known as output tax and the sales are referred to as outputs. Similarly VAT is charged on most goods and services purchased by a business. This is known as input tax.

The output tax is collected from the customer by the business on behalf of HMRC and must be regularly paid over to them by being included in a VAT return

However, the input tax suffered on the goods and services purchased can be deducted from the amount of output tax owed, so that only the net tax due is paid to HMRC. Please note that certain categories of VAT can never be reclaimed as input tax, such as that in respect of third party UK business entertainment and most purchases of motor cars.

Points to consider

Supplies

Taxable supplies are mainly either standard rated (20%) or zero rated (0%). There is, in addition, a reduced rate of 5% which applies to a small number of certain specific taxable supplies.

There are certain supplies that are not taxable and these are categorised as exempt supplies.

There is an important distinction between exempt supplies and zero-rated supplies:

- If your business is making only exempt supplies you cannot register for VAT and therefore cannot recover any input tax.
- If your business is making zero-rated supplies you should register for VAT as your supplies are taxable (albeit at 0%) and recovery of input tax is allowed.

Registration - is it necessary?

You are required to register for VAT if the value of your taxable supplies exceeds a set threshold. This threshold is applied in two different ways - either 'looking back' at the value of taxable supplies made in the previous 12 months, or 'looking forward' to taxable supplies anticipated in the next 30 days alone. The applicable threshold is £90,000 with effect from 1 April 2024.

If you are making taxable supplies below the threshold you can apply for voluntary registration. This would allow you to reclaim input VAT, which could result in a repayment of VAT, for example, if your business was principally making zero-rated supplies.

If you have not yet started to make taxable supplies but intend to do so, you can apply for registration as an 'intending trader'. In this way input tax on start up expenses can be recovered.

Taxable person

A taxable person is anyone who makes or intends to make taxable supplies and is registered or required to be registered for VAT. For the purpose of VAT registration a 'person' includes:

- individuals
- partnerships
- companies, clubs and associations
- charities.

Nunn Hayward
Chartered Accountants

If any individual carries on two or more business activities all the supplies made in those businesses will be added together in determining whether or not the individual is required to register for VAT.

Administration

Once registered you must make a quarterly return to HMRC showing the amount of output tax to be accounted for on sales income and the amount of deductible input tax on expenditure, together with other statistical information. All businesses must file their returns online using software that meets requirements set by HMRC.

In most cases, an online VAT return must be completed and submitted within one month and seven days from the end of the period it covers.

Electronic payment by the same due date is also compulsory for all businesses.

Businesses making zero-rated supplies and which receive net repayments of VAT may find it beneficial from a cashflow perspective to submit **monthly** returns.

Businesses with expected annual taxable supplies not exceeding £1,350,000 may apply to join the **annual accounting scheme** whereby they will make monthly or quarterly payments of VAT but will only have to complete one VAT return at the end of the year.

Businesses trading below the £1,350,000 taxable turnover threshold may also wish to consider the cashflow benefits of joining the **cash accounting scheme,** whereby VAT is accounted for on sales and purchases on a cash book basis, rather than on an accruals basis.

Record keeping

It is important that a VAT registered business maintains complete and up-to-date records. This includes details of all supplies, purchases and expenses.

In addition, a VAT account should be maintained. This is a summary of output tax payable and input tax recoverable by the business. All business records should be kept for six years.

The above records must be maintained in software that meets HMRC requirements. HMRC does not provide free software.

Inspection of records

The maintenance of records and calculation of the VAT liability is the responsibility of the registered person but HMRC will need to be able to check that the correct amount of VAT is being paid. From time to time therefore a VAT officer may come and inspect the business records. This is known as a control visit.

The VAT officer will want to ensure that VAT rules are being applied correctly and that the returns and other VAT records are properly maintained.

However, you should not assume that in the absence of any errors being discovered during a visit, your business has been given a clean bill of health by HMRC.

Offences and penalties

HMRC has wide powers to penalise businesses that ignore or incorrectly apply the VAT regulations. Penalties (and in some instances interest) can be levied by HMRC in respect of the following:

- late returns/payments
- late registration
- errors in returns.

Retail schemes

There are special schemes available for retailers as it can be impractical for some retailers to maintain all the records required of a VAT registered trader.

Flat Rate scheme

This is a scheme allowing smaller businesses (with annual taxable turnover not exceeding £150,000) to pay their VAT to HMRC calculated as a percentage of their total business income. Therefore no specific claims to recover input tax need be made and this can reduce the record-keeping requirements. The aim of the scheme is to simplify the way smaller businesses account for VAT, but for some businesses it can actually result in a reduction in the overall amount of VAT that is payable to HMRC.

Nunn Hayward
Chartered Accountants

Making Tax Digital for Business: VAT

Under Making Tax Digital for VAT (MTDfV), all VAT registered businesses must keep digital records for VAT purposes and provide their VAT return information to HMRC using MTD functional compatible software.

There are some exemptions from MTDfV. However, the exemption categories are tightly-drawn and are unlikely to be applicable to most VAT registered businesses.

How we can help

Ensuring that you comply with all the VAT regulations is essential. We can assist you in a number of ways including the following:

If you would like to discuss any of the points mentioned above please contact us.

- tailoring your accounting systems to bring together the VAT information accurately and quickly
- ensuring that your business is VAT efficient
- providing assistance with the completion of VAT returns
- negotiating with HMRC if disagreements arise and in reaching settlement
- advising as to whether any of the available schemes may be appropriate for you
- helping you comply with the MTDfV regime.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
VAT Annual Accounting Scheme

Nunn Hayward
Chartered Accountants

HMRC has introduced a number of VAT schemes over the years designed to reduce the administrative burden on small businesses. One such scheme is the annual accounting scheme.

What is the annual accounting scheme?

The annual accounting scheme helps small businesses by allowing them to submit only one VAT return annually rather than the normal four. During the year they pay instalments based on an estimated liability for the year with a balancing payment due with the return. The scheme is intended to help with budgeting and cash flow and reduce paperwork.

Joining the scheme

A business can apply to join the scheme if it expects taxable supplies in the next 12 months will not exceed £1,350,000.

Businesses must be up to date with their VAT returns and cannot register as a group of companies.

Application to join the scheme must be made on form 600(AA) which can be found on the GOV.UK website or via a link in the online version of VAT Notice 732. HMRC will advise the business in writing if the application is accepted.

Paying the VAT

Businesses that have been registered for 12 months or more will pay their VAT in nine monthly instalments of 10% of the previous year's liability. The instalments are payable at the end of months 4-12 of the current annual accounting period.

Alternatively such businesses may choose to pay their VAT in three quarterly instalments of 25% of the previous year's liability falling due at the end of months 4, 7 and 10.

The balance of VAT for the year is then due together with the VAT return two months after the end of the annual accounting period.

Businesses that have not been registered for at least 12 months may still join the scheme but each instalment – whether monthly or quarterly – is based on an estimate of the VAT liability.

In all cases HMRC will advise the amount of the instalments to be paid.

The annual accounting period will usually begin at the start of the quarter in which the application is made. If the application is made late in a quarter it may begin at the start of the next quarter.

All businesses are able to apply to HMRC to change the level of the instalments if business has increased or decreased significantly.

Leaving the scheme

Any business can leave the scheme voluntarily at any time by writing to HMRC.

A business can no longer be in the scheme once its annual taxable turnover exceeds £1,600,000.

Advantages of the scheme

- A reduction in the number of VAT returns needed each year, from four to one.
- Because the liability to be paid each month is known and certain, cash flow can be managed more easily.
- There is an extra month to complete the VAT return and pay any outstanding tax.
- It should help to simplify calculations where the business uses a retail scheme or is partly exempt.

Potential disadvantages

Interim payments may be higher than needed because they are based on the previous year. However, it is possible to apply to HMRC for an adjustment if the difference is significant.

A business is obliged to notify HMRC if the VAT liability is likely to be significantly higher or lower than in the previous year.

How we can help

We can help you to plan your VAT administration and consider with you whether the annual accounting scheme would be beneficial for your business.

Nunn
Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
VAT - Bad Debt Relief

Nunn Hayward
Chartered Accountants

It is quite possible within the VAT system for a business to be in the position of having to pay over VAT to HMRC while not having received payment from their customer.

Bad debt relief allows businesses that have made supplies on which they have accounted for and paid VAT but for which they have not received payment, to claim a refund of the VAT by reference to the outstanding amount.

The Conditions for Relief

In order to make a claim a business must satisfy a number of conditions, the key ones being:

- goods and services have been supplied and the VAT in question has been accounted for and paid to HMRC
- six months has elapsed since the date of supply and the due date for payment, whichever is the later
- The debt has not been sold, factored or otherwise assigned to another party
- all or part of the outstanding amount must have been written off in the day-to-day accounting records as a bad debt (to a separate 'refunds for bad debts account').

Making the Claim

A claim is made by entering the appropriate amount in Box 4 of the VAT return for the period in which entitlement to the claim arises (or any permissible later period).

It is not permitted to issue a credit note to the customer in respect of any bad debt claims.

The amount of any VAT relief is calculated with reference to the outstanding amount. In cases where part payment has been received from the customer the outstanding amount must be treated as VAT-inclusive, and hence relief can be claimed only on VAT relating to the amount that remains unpaid.

If a claim for bad debt relief is made via the VAT return and the customer subsequently makes a partial or full payment, the taxpayer is obliged to reverse or adjust their claim accordingly.

Records

Businesses making bad debt relief claims must keep records for four years from the date of the claim to show:

- the time and nature of supply, purchaser and consideration - normally a copy of the VAT invoice will show this
- the amount of VAT and the accounting period it was paid to HMRC
- any payment received for the supply
- details of entries in the 'refunds for bad debts account'.

Repayment of Input Tax by Purchaser

This measure might be described as the reverse of bad debt relief since it focuses on the customer rather than the supplier.

Where a customer has not paid a supplier within six months of the date of the supply or, if later, the date payment is due, VAT previously claimed as input tax, must be repaid to HMRC via the VAT return. This puts a burden on all VAT registered businesses to monitor their purchase ledger to anticipate whether they need to reverse any input tax recovered on goods and services received from suppliers.

How we can help

We would be pleased to help with further advice in this area.

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
VAT - Cash Accounting

Nunn Hayward
Chartered Accountants

Cash accounting enables a business to account for and pay VAT on the basis of cash received and paid, rather than on the basis of invoices issued and received.

Advantages and Disadvantages of the Scheme

The advantages of the scheme are as follows:

- Output tax on sales income is not due until the business receives payment of its sales invoices. If customers pay promptly, the advantage will be limited. Even so, the gain may be material.
- There is automatic VAT bad debt relief because, if no payment is received, no output tax is due.
- Most smaller businesses find it easier to think in terms of cash flows in and out of their business than invoiced amounts.

The potential disadvantages are as follows:

- There is no input tax recovery until payment of suppliers' invoices is made.
- The scheme will not be beneficial for net repayment businesses - for example, a business just starting up, which has substantial initial expenditure on equipment, stocks etc. so that input tax exceeds output tax, should normally delay joining the scheme. That way, it can make use of the accruals basis to recover the initial input tax on the basis of invoices received, as opposed to payments made.

Key Rules

A business can join the scheme if it has reasonable grounds for believing that taxable turnover in the next 12 months will not exceed £1,350,000 and provided that it:

- is up to date with VAT returns
- has paid over all VAT due or has agreed with HMRC a basis for settling any outstanding amount in instalments
- has not in the previous year been convicted of any VAT offences.

All standard and zero-rated supplies count towards the £1,350,000 threshold except anticipated sales of capital assets previously used within the business. Exempt supplies are excluded from the calculation.

When a business joins the scheme, it must be careful not to account again for VAT on any amounts already dealt with previously on the basis of invoices issued and received.

A business can start using the scheme without informing HMRC.

The cash accounting scheme does not cover:

- goods bought or sold under lease or hire-purchase agreements
- goods bought or sold under credit sale or conditional sale agreements
- supplies invoiced where full payment is not due within six months
- supplies invoiced in advance of delivering the goods or performing the services.

Once annual taxable turnover exceeds £1,600,000 the business must leave the scheme immediately.

On leaving the scheme, in principle VAT becomes due on all supplies on which it has not already been accounted for. Unclaimed input tax on invoices received can be offset against the output tax. However in order to smooth the transition from cash accounting to accruals accounting HMRC allows a period whereby all VAT that is outstanding at the date of leaving the scheme can still be accounted for on a cash basis for a further six months after leaving the scheme.

Accounting for VAT

Output tax must be accounted for when payment is received. There are specific rules for different types of payment:

Cheque
Treated as received on the date the cheque is received or if later, the date on the cheque. If the cheque is not honoured an adjustment can be made.

Credit/debit card
Treated as received/paid on the date of the sales voucher.

Standing order/direct debits
Treated as received/paid on the day the bank account is credited.

Nunn Hayward
Chartered Accountants

Part payments

VAT must be accounted for on all receipts/payments even where they are part payments. Part payments are allocated to invoices in date order (earliest first) and any part payment of an invoice allocated to VAT by making a fair and reasonable apportionment.

Records

Under the cash accounting scheme the prime record will be a cash book that summarises all payments made and received with a separate column for VAT. The payments need to be clearly cross-referenced to the appropriate purchase/sales invoice.

In addition, the normal requirements regarding copies of VAT invoices and evidence of input tax apply.

How we can help

We can advise on whether the cash accounting scheme would be suitable for your business.

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
VAT Flat Rate Scheme

The flat rate scheme for small businesses was introduced to reduce the administrative burden imposed when operating VAT.

Under the scheme a set percentage is applied to the turnover of the business as a one-off calculation instead of having to identify and record the VAT on each sale and purchase that is made.

Who can join?

The scheme is optional and available to businesses with anticipated taxable turnover (excluding VAT) of £150,000 or less in the next 12 months. A business must leave the scheme when income in the last twelve months exceeds £230,000, unless HMRC are satisfied that income will fall below £191,500 in the following year. A business must also leave the scheme if there are reasonable grounds to believe that total income is likely to exceed £230,000 in the next 30 days.

The turnover test applies to your anticipated turnover in the following 12 months. Your turnover may be calculated in any reasonable way but would usually be based on the previous 12 months if you have been registered for VAT for at least a year.

To join the scheme you can apply by post, email or phone and if you are not already registered for VAT you can apply online for the flat rate scheme at the same time as registering for VAT.

You may not operate the scheme until you have received notification that your application has been accepted and HMRC will inform you of the date of commencement.

When is the scheme not available?

The flat rate scheme cannot be used if you:

- use the second hand margin scheme or auctioneers' scheme
- use the tour operators' margin scheme
- are required to operate the capital goods scheme for certain items.

In addition the scheme cannot be used if, within the previous 12 months, you have:

- ceased to operate the flat rate scheme
- been convicted of an offence connected with VAT
- been assessed with a penalty for conduct involving dishonesty.

The scheme will clearly be inappropriate if you regularly receive VAT repayments.

How the scheme operates

VAT due is calculated by applying a predetermined flat rate percentage to the business turnover of the VAT period. This will include any exempt supplies and it will therefore not generally be beneficial to join the scheme where there are significant exempt supplies.

The percentage rates are determined according to the trade sector of your business and generally range from 4% to 16.5%. The table in the appendix to this factsheet summarises the percentages. In addition there is a further 1% reduction off the normal rates for businesses in their first year of VAT registration.

If your business falls into more than one sector it is the main business activity as measured by turnover which counts. This can be advantageous if you have a large percentage rate secondary activity and a modest major percentage trade. You should review the position on each anniversary of joining the scheme and if the main business activity changes or you expect it to change during the following year you should use the appropriate rate for that sector.

Although you pay VAT at the flat rate percentage under the scheme you will still be required to prepare invoices to VAT registered customers showing the normal rate of VAT. This is so that they can reclaim input VAT at the appropriate rate.

Example of the calculation

Cook & Co is a partnership operating a café and renting out a flat. If its results are as follows:

VAT inclusive turnover:	**£**
Standard rated catering supplies	70,000
Zero rated takeaway foods	5,500
Exempt flat rentals	3,500
	________
Total	£79,000
	________

Flat rate 12.5% x £79,000 = £9,875
Normally £70,000 x 20/120 = £11,667 less input tax
And £70,000 x 5/105 (reduced rate) = £3,333 less input tax

Limited cost trader

A 16.5% rate applies for businesses with limited costs, such as many labour-only businesses. Businesses using the FRS, or considering joining the scheme, will need to decide if they are a 'limited cost trader'.

A limited cost trader will be defined as one whose VAT inclusive expenditure on goods is either:

- less than 2% of their VAT inclusive turnover in a prescribed accounting period
- greater than 2% of their VAT inclusive turnover but less than £1,000 per annum if the prescribed accounting period is one year (if it is not one year, the figure is the relevant proportion of £1,000).

Goods, for the purposes of this measure, must be used exclusively for the purpose of the business but exclude the following items:

- capital expenditure
- food or drink for consumption by the flat rate business or its employees
- vehicles, vehicle parts and fuel (except where the business is one that carries out transport services - for example a taxi business - and uses its own or a leased vehicle to carry out those services)
- Goods for re-sale, or hiring out, unless selling or hiring is the main business activity
- Goods to be used as promotional items or gifts.

These exclusions are part of the test to prevent traders buying either low value everyday items or one off purchases in order to inflate their costs beyond 2%.

Treatment of capital assets

The purchase of capital assets costing more than £2,000 (including VAT) may be dealt with outside the scheme. You can claim input VAT on such items on your VAT return in the normal way. Where the input VAT is reclaimed you must account for VAT on a subsequent sale of the asset at the normal rate instead of the flat rate.

Items under the capital goods scheme are excluded from the flat rate scheme.

Records to keep

Under the scheme you must keep a record of your flat rate calculation showing:

- your flat rate turnover
- the flat rate percentage you have used
- the tax calculated as due.

You must still keep a VAT account although if the only VAT to be accounted for is that calculated under the scheme there will only be one entry for each period.

Summary

The scheme is designed to reduce administration although it will only be attractive if it does not result in additional VAT liabilities. The only way to establish whether your business will benefit is to carry out a calculation and comparison of the normal rules and the flat rate rules.

How we can help

We can advise as to whether the flat rate scheme would be beneficial for your business and help you to operate the scheme. Please do not hesitate to contact us.

Appendix: Table of sectors and rates

Trade Sector	Appropriate %
Accountancy or book-keeping	14.5
Advertising	11
Agricultural services	11
Any other activity not listed elsewhere	12
Architect, civil and structural engineer or surveyor	14.5
Boarding or care of animals	12
Business services that are not listed elsewhere	12
Catering services including restaurants and takeaways	12.5
Computer and IT consultancy or data processing	14.5
Computer repair services	10.5
Entertainment or journalism	12.5
Estate agency or property management services	12
Farming or agriculture that is not listed elsewhere	6.5
Film, radio, television or video production	13
Financial services	13.5
Forestry or fishing	10.5
General building or construction services*	9.5
Hairdressing or other beauty treatment services	13
Hiring or renting goods	9.5
Hotel or accommodation	10.5
Investigation or security	12
Labour-only building or construction services*	14.5
Laundry or dry-cleaning services	12
Lawyer or legal services	14.5
Library, archive, museum or other cultural activity	9.5
Management consultancy	14
Manufacturing fabricated metal products	10.5
Manufacturing food	9
Manufacturing that is not listed elsewhere	9.5
Manufacturing yarn, textiles or clothing	9
Membership organisation	8
Mining or quarrying	10
Packaging	9
Photography	11
Post offices	5
Printing	8.5
Publishing	11

Pubs	6.5
Real estate activity not listed elsewhere	14
Repairing personal or household goods	10
Repairing vehicles	8.5
Retailing food, confectionery, tobacco, newspapers or children's clothing	4
Retailing pharmaceuticals, medical goods, cosmetics or toiletries	8
Retailing that is not listed elsewhere	7.5
Retailing vehicles or fuel	6.5
Secretarial services	13
Social work	11
Sport or recreation	8.5
Transport or storage, including couriers, freight, removals and taxis	10
Travel agency	10.5
Veterinary medicine	11
Wholesaling agricultural products	8
Wholesaling food	7.5
Wholesaling that is not listed elsewhere	8.5
* 'Labour-only building or construction services' means building or construction services where the value of materials supplied is less than 10% of relevant turnover from such services; any other building or construction services are 'general building or construction services'.	

2-4 Packhorse Road, Gerrards Cross, Buckinghamshire SL9 7QE 01753 888211 www.nhllp.com

Nunn Hayward
Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

FACTSHEET
VAT – Seven Key Points for the Smaller Business

This factsheet focuses on VAT matters of relevance to the smaller business. A primary aim is to highlight common risk areas as a better understanding can contribute to a reduction of errors and help to minimise penalties. Another key ingredient in achieving that aim is good record keeping, otherwise there is an increased risk that the VAT return could be prepared on the basis of incomplete or incorrect information.

This aspect is not considered further here but useful guidance can be found on the GOV.UK website www.gov.uk/vat-record-keeping.

See our factsheet 'Making Tax Digital for VAT' on the mandatory digital record keeping and digital VAT returns.

VAT return and payment deadlines

For the businesses that complete quarterly or monthly returns, both the VAT return and any VAT payable are normally due to HMRC one month and seven days after the end of the VAT period.

Where the due date falls on a weekend or bank holiday the business should ensure that submission of the return and payment of any VAT due has reached HMRC no later than the last working day prior to the deadline.

Input tax

When VAT incurred on expenditure is recoverable in a VAT return it is termed 'input tax.' Only VAT registered businesses can reclaim VAT on purchases providing:

- the expense is incurred for business purposes
- the business is the recipient of the supply of goods or services
- there is a valid VAT invoice for the purchase.

Only VAT registered businesses can issue valid VAT invoices. Hence VAT cannot be reclaimed on any goods or services purchased from a busineBroadly, ss that is not VAT registered. Proforma invoices should not be used as a basis for input tax recovery as this can accidentally lead to a duplicate VAT recovery claim.

Most types of supply on which VAT recovery is sought must be supported by a valid VAT invoice. This generally needs to be addressed to the trader claiming the input tax. A very limited list of supplies do not require a VAT invoice to be held to support a claim, providing the total expenditure for each taxable supply is £25 or less (VAT inclusive). The most practical examples of these are car park charges and certain toll charges.

The following common items however never attract VAT and so there is no VAT to be reclaimed - stamps, train, air and bus tickets, on street car parking meters and office grocery purchases like tea, coffee and milk.

Business purpose

This is often an area of contention between taxpayers and HMRC as VAT is not automatically recoverable simply because it has been incurred by a VAT registered person, or because the supplier has been paid by the business.

In assessing whether the use to which goods or services are put amounts to business use (for the purpose of establishing the right to deduct the VAT as input tax), consideration must be given as to whether the expenditure relates directly to the function and operation of the business or merely provides an incidental benefit to it.

Private and non-business use

In many businesses, personal and business finances can be closely linked and input tax may be claimed incorrectly on expenditure which is partly or wholly for private or non-business purposes.

Typical examples of risk areas where claims are likely to be made but which do not satisfy the 'purpose of the business' test include:

- expenditure related to domestic accommodation where there is no business connection
- pursuit of personal interests such as sporting and leisure oriented activities
- expenditure for the personal benefit of company directors/ proprietors and
- expenditure in connection with non-business activities.

Where expenditure has a mixed business and private purpose, the related VAT should generally be apportioned and only the business element claimed. Special rules apply to adjust input tax claimed on assets and stock when goods initially intended for business use are then put to an alternative use.

Example

Three laptops are initially bought for the business and input VAT of £360 in total is reclaimed.
One is then gifted by the business owner to his son so VAT will have to be accounted for to HMRC of £120 (1/3 x £360)

Business entertainment

VAT is not reclaimable on most forms of business entertainment although VAT incurred on employee entertainment is recoverable. The definition of business entertainment is broadly interpreted to mean hospitality of any kind provided to someone who is not an employee, which can include the following example situations:

- travel expenses incurred by non employees but reimbursed by the business, such as self employed workers and consultants
- hospitality elements of trade shows and public relations events.

Business gifts

A VAT supply takes place whenever business goods change hands, so in theory any goods given away by a business will result in an amount of VAT due. The rule on business gifts is that no output tax will be due on gifts to the same person, provided that the VAT exclusive cost of the gifts to that person does not exceed £50 within any 12-month period.

Where the £50 limit is exceeded, VAT is due (output tax) on the full amount. There is a deemed supply of the goods for VAT purposes. Where this occurs HMRC will usually accept the business can disallow the VAT when buying the goods, which may be more convenient than having to calculate output tax every time a gift is given.

Routine commercial transactions which might be affected include such things as:

- long service awards
- Christmas gifts
- prizes or incentives for sales staff.

Cars and motoring expenses

Input tax errors often occur in relation to the purchase or lease of cars and with motoring expenses in general. Some key issues are:

- VAT on the purchase of a motor car is generally blocked from recovery because it is assumed there will be availability for private motoring and hence the vehicle is not exclusively for business use. This prohibition does not normally apply to commercial vehicles and vans, provided there is an element of business use.
- Where a car is leased rather than purchased, 50% of the VAT on the leasing charge is blocked from recovery for the same reason.
- Where a business supplies fuel or mileage allowances for cars, adjustments need to be made to ensure that only VAT on the business element of the expense is recovered. There are a number of different methods which can be used, so do get in touch if this is relevant to you.

Output tax issues

Bad debts

Selling goods or services on credit in the current economic climate may carry increased risk. Even where credit control procedures are strong there will inevitably be a risk of suffering bad debts. A supplier must normally account for output tax when the sale is made, even if the debt is never paid by the customer, so there is a risk of being doubly out of pocket.

VAT regulations do not permit the issue of a credit note to cancel output tax simply because the customer will not pay! Instead, where a customer does not pay, then provided the output tax has been accounted for by the supplier, a claim to recover the VAT as bad debt relief can be made six months after the due date for payment of the invoice.

Example

A business supplies and invoices goods on 19 October 2022 for payment by 18 November 2022 (ie a normal 30 day credit period). If the debt is not settled, the earliest opportunity for relief would be 18 May 2023. The relief would be included in the VAT return into which this date falls, depending on the return cycle of the business.

The amount of the claim

The taxpayer can only claim relief for the output tax originally charged and paid over to HMRC, no matter whether the rate of VAT has subsequently changed. The claim is entered into box 4 of the VAT return - treating the uncollected VAT as an additional business expense - rather than by reducing output tax.

The customer

A customer is automatically required to repay to HMRC any input VAT claimed on a purchase where the supplier remains unpaid six months after the date of the supply (or the date on which payment is due if later). Mistakes in this area are so common that visiting HMRC officers have developed a programme enabling them to review Sage accounting packages and to list purchase ledger balances over six months old, making it easy to issue an assessment to disallow the VAT claimed.

Preventing the problem?

Smaller businesses (with annual turnover less than £1.35m) may be entitled to join the Cash Accounting Scheme, which means they will only have to account for VAT on sales when payment is actually received from the customer.

There is a clear cashflow benefit as well as built-in relief VAT from bad debts. The trade-off is that cash accounting only permits a business to recover VAT on expenditure at the time it makes payment to suppliers.

How we can help

Please contact us if you require any further guidance on VAT issues for your business.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Valuing Your Business

There are many reasons why you may need to calculate the value of your business. Here we consider the range of methods available as well as some of the factors to consider during the process.

It is important to remember throughout that valuing a business is something of an art, albeit an art backed by science!

Why value your business?

One of the most common reasons for valuing a business is for sale purposes. Initially a valuation may be performed simply for information purposes, perhaps when planning an exit route from the business. When the time for sale arrives, owners need a starting point for negotiations with a prospective buyer and a valuation will be needed.

Valuations are also commonly required for specific share valuation reasons. For example, share valuations for tax purposes may be required:

- on gifts or sales of shares
- on the death of a shareholder
- on events in respect of trusts which give rise to a tax charge
- for capital gains tax purposes
- when certain transactions in companies take place, for example, purchase of own shares by the company.

Share valuations may also be required:

- under provisions in a company's Articles of Association
- under shareholders' or other agreements
- in disputes between shareholders
- for financial settlements in divorce
- in insolvency and/or bankruptcy matters
- measuring investments for the annual financial statements.

When a business needs to raise equity capital a valuation will help establish a price for a new share issue.

Valuing a business can also help motivate staff. Regular valuations provide measurement criteria for management in order to help them evaluate how the business is performing. This may also extend to share valuations for entry into an employee share option scheme for example, again used to motivate and incentivise staff.

Valuation methods

While there is a ready made market and market price for the owners of listed public limited company shares, those needing a valuation for a private company need to be more creative.

Various valuation methods have developed over the years. These can be used as a starting point and basis for negotiation when it comes to selling a business.

Earnings multiples

Earnings multiples are commonly used to value businesses with an established, profitable history.

Often, a price earnings ratio (P/E ratio) is used, which represents the value of a business divided by its profits after tax. To obtain a valuation, this ratio is then multiplied by current profits. Here the calculation of the profit figure itself does depend on circumstances and will be adjusted for relevant factors.

A difficulty with this method for private companies is in establishing an appropriate P/E ratio to use - these vary widely. P/E ratios for quoted companies can be found in the financial press and one for a business in the same sector can be used as a general starting point. However, this needs to be discounted heavily as shares in quoted companies are much easier to buy and sell, making them more attractive to investors.

As a rule of thumb, typically the P/E ratio of a small unquoted company is 50% lower than a comparable quoted company. Generally, small unquoted businesses are valued at somewhere between five and ten times their annual post tax profit. Of course, particular market conditions can affect this, with boom industries seeing their P/E ratios increase.

A similar method uses EBITDA (earnings before interest, tax, depreciation and amortisation), a term which essentially defines the cash profits of a business. Again an appropriate multiple is applied.

Discounted cashflow

Generally appropriate for cash-generating, mature, stable businesses and those with good long-term prospects, this more technical method depends heavily on the assumptions made about long-term business conditions.

Essentially, the valuation is based on a cash flow forecast for a number of years forward plus a residual business value. The current value is then calculated using a discount rate, so that the value of the business can be established in today's terms.

Entry cost

This method of valuation reflects the costs involved in setting up a business from scratch. Here the costs of purchasing assets, recruiting and training staff, developing products, building up a customer base, etc are the starting point for the valuation. A prospective buyer may look to reduce this for any cost savings they believe they could make.

Asset based

This type of valuation method is most suited to businesses with a significant amount of tangible assets, for example, a stable, asset rich property or manufacturing business. The method does not however take account of future earnings and is based on the sum of assets less liabilities. The starting point for the valuation is the assets per the accounts, which will then be adjusted to reflect current market rates.

Industry rules of thumb

Where buying and selling a business is common, certain industry-wide rules of thumb may develop. For example, the number of outlets for an estate agency business or recurring fees for an accountancy practice.

What else should be considered during the valuation process?

There are a number of other factors to be considered during the valuation process. These may help to greatly enhance, or unfortunately reduce, the value of a business depending upon their significance.

Growth potential

Good growth potential is a key attribute of a valuable business and as such this is very attractive to potential buyers. Market conditions and how a business is adapting to these are important - buyers will see their initial investment realised more quickly in a growing business.

External factors

External factors such as the state of the economy in general, as well as the particular market in which the business operates can affect valuations. Of course, the number of potential, interested buyers is also an influencing factor. Conversely, external factors such as a forced sale, perhaps due to ill health or death may mean that a quick sale is needed and as such lower offers may have to be considered.

Intangible assets

Business valuations may need to consider the effect of intangible assets as they can be a significant factor. These in many cases will not appear on a balance sheet but are nevertheless fundamental to the value of the business.

Consider the strength of a brand or goodwill that may have developed, a licence held, the key people involved or the strength of customer relationships for example, and how these affect the value of the company.

Circumstances

The circumstances surrounding the valuation are important factors and may affect the choice of valuation method to use. For example, a business being wound up will be valued on a break up basis. Here value must be expressed in terms of what the sum of realisable assets is, less liabilities. However, an on-going business (a 'going concern') has a range of valuation methods available.

Nunn Hayward
Chartered Accountants

How we can help

With any of the valuation methods discussed above, it is important to remember that valuing a business is not a precise science. In the end, any price established by the methods described above will be a matter for negotiation and more than one of the methods above will be used in the process. Ultimately, when the time for sale comes, a business is worth what someone is prepared to pay for it at that point in time.

Please contact us to discuss how we can help value your business as well as help you develop an exit strategy to maximise the value of your business.

Nunn Hayward
Chartered Accountants

Nunn Hayward
Chartered Accountants

FACTSHEET
Venture Capital Trusts

01753 888211 | info@nhllp.com | www.nhllp.com

Nunn Hayward
Chartered Accountants

Venture Capital Trusts (VCTs) are complementary to the Enterprise Investment Scheme (EIS), in that both are designed to encourage private individuals to invest in smaller high-risk unquoted trading companies affected by the equity gap. While the EIS requires an investment to be made directly into the shares of the company, VCTs operate by indirect investment through a mediated fund. In effect they are very like the investment trusts that are obtainable on the stock exchange, albeit in a high-risk environment.

What is a VCT?

VCTs themselves are quoted companies which are required to hold at least 70% of their investments in shares or securities that they have subscribed for in qualifying unquoted companies. VCTs have a certain time period in which to meet the percentage test.

Other conditions are:

- they must distribute 85% of their income
- they must have a spread of investments with no single holding accounting for more than 15% of the value of total.

VCTs are exempt from tax on their capital gains and there is no relief for capital losses.

Reliefs available to investors

Income tax relief of 30% is currently available on subscriptions for VCT shares up to a limit per tax year of £200,000.

To qualify for income tax relief the shares must be held for a minimum of five years.

Investors are exempt from tax on any dividends received from a VCT although the credits are not repayable.

Capital gains arising on disposal of the shares are also exempt and for this relief, there is no minimum period of ownership. There is no relief for any capital losses.

Qualifying companies which a VCT can invest in

The definition of a qualifying company for VCT purposes is very similar to that applying for EIS. The company:

- must be unquoted, although shares on the Authorised Investment Market (AIM) are deemed unquoted for this purpose. They may become quoted later.
- must not deal in land, leased assets or financial, legal or accountancy services. In addition it must not be a trade that has a large capital aspect to it, such as property development, farming, hotels or nursing homes.

Over the years, governments make amendments to what are regarded as qualifying companies for a VCT to invest in. The thrust of the changes is to ensure well-targeted support for investment into small and growing companies, with a particular focus on innovative companies.

How we can help

It is not possible to cover all the detailed rules in a factsheet of this nature. If you are interested in investing in a VCT please contact us for further information.

Nunn Hayward

Chartered Accountants

01753 888211 | info@nhllp.com | www.nhllp.com