Tax Matters

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Weathering the seasons: dealing with fluctuating demand

Any business can experience peaks and troughs, and for seasonal firms, these varying demands are more extreme. It can be difficult to manage the drastic change of pace and the fluctuating bank balance, but by following some best practice principles, you can help to ensure that your business runs smoothly, whatever the season.

Maintain a healthy cashflow

A healthy cashflow is important for any business, but it is crucial if your trade experiences fluctuations in demand. Overspending when you have money in abundance can leave you short in the months when your business is quieter.

Cashflow forecasting can help you to stay in control. Estimating your sales, revenue and expenditure pattern for the year to come is a valuable exercise for organising your finances, to make sure that you do not run out of funds. Remember to review these forecasts regularly to ensure that they are up to date.

Utilise your 'down time'

The advantage of having quieter periods is that they offer the opportunity to plan and improve.

Some important areas to consider may include:

- **Market research** – Identify any changes in your market and competitors' activities and refine your business plan and forecasts
- **Promotion** – Think about your forthcoming marketing campaigns. Leave plenty of time before periods of high trade to promote your products or services
- **Strategic analysis** – Review your last busy period. Could anything be handled differently in order to make next year run more smoothly?

Forward planning should become a focus in these quieter months so that you have a solid and dependable plan in place ahead of your next busy season.

Manage your stock efficiently

Analysing past sales and demand should help you to gauge the correct quantity of stock to buy. Keeping stock levels to a minimum will free up money that would otherwise be tied up, so if you are left with excess stock, why not think about advertising a promotion or 'end of season' sale to boost sales and shift any surplus? Employing a flexible pricing plan that reflects demand may help to improve cashflow and boost your bottom line.

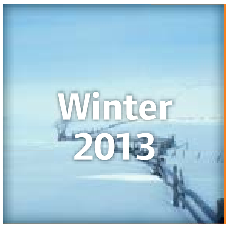
Diversify

Think about how you can vary your approach to generate off-season revenue. Is there a different product or service you could offer during this time to boost sales? It may be possible to increase the longevity of your products, so that they are profitable for longer periods of the year. If targeted correctly, success could be achieved in a different market, for instance online or even abroad.

Tighten up on credit control

Be proactive about getting paid. Issue invoices promptly and chase payments as soon as they are due to help you stay on top of your finances. To encourage swift payment, consider the possibility of a small discount or other reward for those that settle their bill quickly, and charge interest on those invoices that are not paid on time.

We can advise on a range of business planning strategies to help you boost your profits throughout the year, whatever the nature of your business.



Inside this Issue...

Small business Q&A: should I register for VAT?

We are often asked whether small businesses need to, or should, register for VAT. Of course this depends on a multitude of factors and it is important to consider the wider implications before making a decision. Here is a selection of some of the most frequently asked questions on VAT registration.

Q. When do I have to register for VAT?

A. You must register for VAT if your turnover* for the past 12 months exceeds £79,000 (2013/14), or there are reasonable grounds for believing that your turnover for the next 30 days will exceed £79,000.

In the first case, notification must be within 30 days of the end of the relevant months. In the latter case, notification must be within 30 days of the date on which grounds first existed.

If your turnover is ***below*** £79,000 you are entitled to register on a voluntary basis (see below), provided you have a genuine business.

**Talk to us if your turnover is not made up of fully taxable supplies.*

> "If you only make a few purchases you may benefit from the VAT flat rate scheme for small businesses"

Q. Is voluntary registration a good idea?

A. This will depend on your business and its individual circumstances. However, if your business turnover is near the limit for compulsory registration it may be wise to register for VAT before it exceeds the threshold, as there is a penalty for late registration.

One advantage of being VAT registered is that you can recover the VAT on your purchases (known as 'input tax'). Credit is available for all VAT paid on inputs where a VAT invoice is available, except for tax on private expenditure, business entertainment, motor cars, certain building materials, and goods bought under a second-hand goods scheme. However, bear in mind that recovery of input tax may be restricted if the business makes both taxable and exempt supplies, and traders with fully exempt outputs cannot register or reclaim any input tax.

Some business owners also believe that being VAT registered improves their credibility and standing amongst clients and competitors, as it implies that the business has a solid turnover that exceeds the VAT threshold.

Q. Are there any disadvantages to registration?

A. Once you are VAT registered, you must charge VAT on any relevant goods or services. This means you will need to add 20% to the price of standard rated goods. If most of your customers are also VAT registered, the additional charge will not affect them (they can claim back the 20% VAT). However, if your customers are private individuals or non-registered businesses, they will not have this luxury and you may lose custom if they can source an alternative supplier, who can provide the equivalent goods or services at a lower cost.

Registering for VAT usually results in increased paperwork, as you are required to submit returns every three months and maintain demonstrably accurate records. However, if you only make a few purchases you may benefit from the VAT flat rate scheme for small businesses, which simplifies the VAT records you need to keep – please ask us for details.

Failure to comply with the complex legislation can also result in substantial penalties.

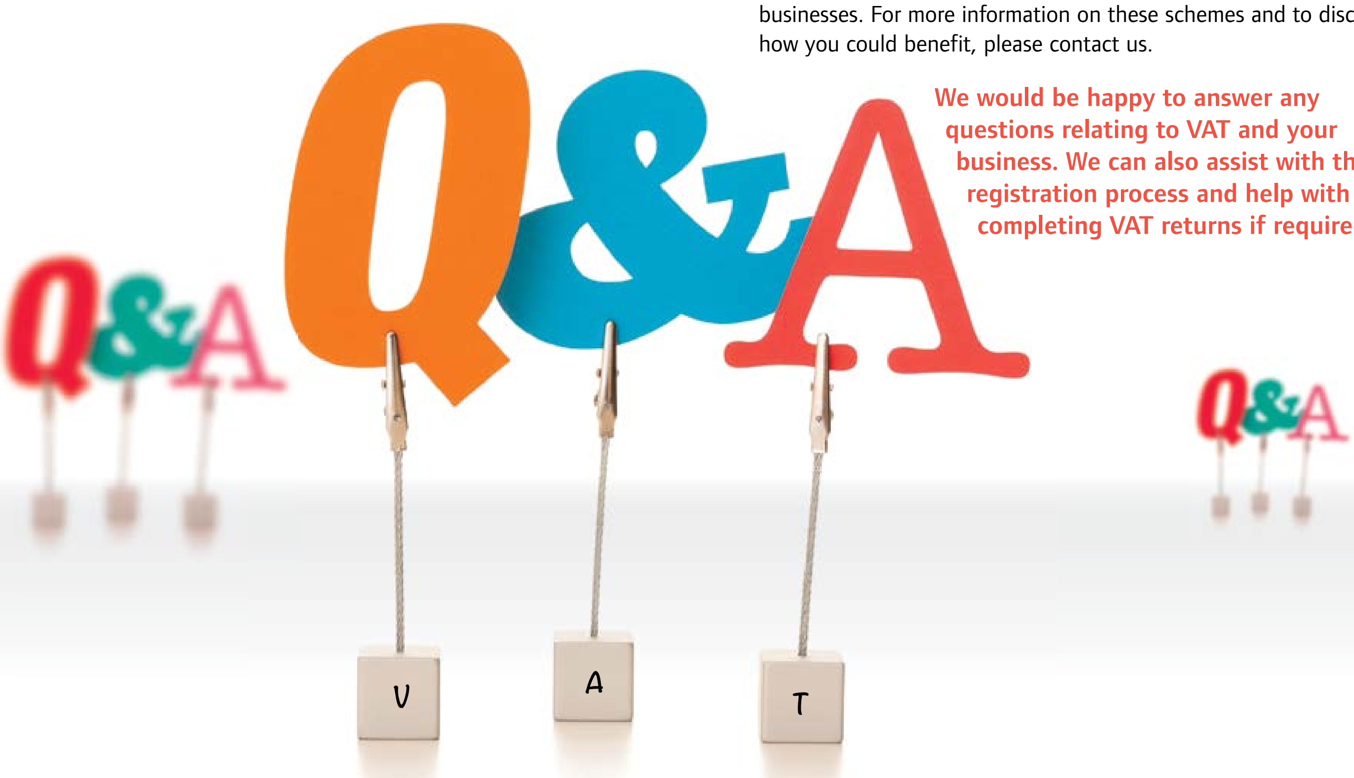
Q. When can I, or must I, deregister?

A. You ***must*** deregister when taxable supplies are no longer made, eg. when trading ceases. You ***can*** deregister when anticipated turnover for the next year (measured from any time) is less than £77,000, but this may not be in your interests – seek our advice first.

Q. What schemes are available?

A. HMRC operates a range of schemes which are designed to simplify accounting for VAT. These include the annual accounting scheme, the cash accounting scheme and the flat rate scheme for VAT. There are also a number of VAT schemes available for retail businesses. For more information on these schemes and to discuss how you could benefit, please contact us.

We would be happy to answer any questions relating to VAT and your business. We can also assist with the registration process and help with completing VAT returns if required.



Rights for shares: employee shareholder contracts

1 September 2013 saw the introduction of the new 'employee shareholder' status, which offers employees certain tax advantages when they receive shares in the business, in return for them surrendering some of their employment rights.

Under the scheme, individuals who receive shares worth between £2,000 and £50,000 under an employee shareholder contract will be exempt from paying capital gains tax on any profit made on the sale of those shares. In addition, income tax and national insurance contributions (NICs) will not normally be charged on the first £2,000 of shares.

New rights and responsibilities

In order to qualify for the new status, employee shareholders must normally surrender the following statutory employment rights:

- ✘ The right to claim unfair dismissal (unless the dismissal is automatically unfair or discriminatory)
- ✘ The right to receive statutory redundancy pay
- ✘ The right to request flexible working, study or training arrangements.

Employee-shareholders must also give additional notice if they wish to return from certain types of leave, including 16 weeks' notice in the case of an early return from maternity, adoption or additional paternity leave. However, the employer and employee can agree more advantageous employment rights if they wish to do so.

Employees will retain some key employment rights, including:

- ✔ Those relating to discrimination against a 'protected characteristic' such as race, gender or disability
- ✔ The right to a minimum period of holiday
- ✔ Rights regarding notice
- ✔ Statutory payments, including sick pay and maternity pay
- ✔ The right to the national minimum wage.

Additional requirements

Employee shareholders must be given a written statement regarding the employment rights they are giving up, and any rights attached to the shares. Employees must also receive independent advice regarding the agreement, with the employer accountable for any reasonable costs, and a cooling-off period of seven days must be granted thereafter.

Businesses wishing to award shares under an employee shareholder contract do not need to obtain the agreement of HM Revenue & Customs (HMRC). However, they should provide details regarding any awarded shares to HMRC using Form 42.

Your year end planning checklist

Early planning is vital to ensure that you are making the most of the tax-saving opportunities available to you ahead of the tax year end. This checklist explores some of the key strategies to consider.

You and your family

☐ Are you utilising your 2013/14 ISA allowance?

Adults (18 or over) with an ISA can save a maximum of £11,520 for the year 2013/14, of which no more than £5,760 can go into a cash ISA. Investments for the 2013/14 tax year must be made by 5 April 2014.

☐ Can you avoid the hidden '60%' income tax band?

The additional rate of income tax may be 45%, but personal allowances are scaled back if income exceeds £100,000, giving an effective tax rate of 60% on an £18,880 slice of income. If your income for 2013/14 is likely to fall within the £100,000 – £118,880 band talk to us about your options – you might, for example, delay income into the next tax year or increase payments into a pension.

☐ Do you have a tax-efficient estate plan in place?

Early planning can help to reduce your liability to inheritance tax (IHT) through, for example, a plan for tax-efficient lifetime gifts and a tax-efficient Will. There are a number of IHT reliefs available, while certain small gifts can be made free of any IHT liability. Annual transfers not exceeding £3,000 are also exempt (and any unused amount may be carried forward to enhance the following year's exemption).

Strategies for business

☐ Could you benefit from claiming capital allowances?

Ahead of this year end, be sure to review your capital expenditure to maximise claims for capital allowances. For a temporary two-year period from 1 January 2013, the majority of businesses are able to claim a 100% Annual Investment Allowance on the first £250,000 of expenditure on most types of plant and machinery (except cars).

Typically, a purchase made just before the end of the current accounting year will mean the allowances will usually be available a year earlier than if the purchase was made just after the year end. In the same way, the disposal of an asset may trigger an earlier claim for relief (or even an earlier charge to tax – discuss your plans with us).

☐ Could a bonus or dividend reduce your tax bill?

The question of whether it is better to take a salary/bonus or a dividend requires careful consideration. A dividend is paid free of NICs, whilst a salary or bonus can carry up to 25.8% in combined employer and employee contributions. However, a salary or bonus is generally tax deductible to the company, whereas dividends are not. Please talk to us about the best option to suit your circumstances.

☐ Time to review your business motoring?

Tax and national insurance costs could mean that your company car may not be the most tax-efficient option for either employer or employee. For some, an employer-provided 'van' may be a viable alternative. The taxable benefit for the unrestricted use of company vans is £3,000 plus a further £564 of taxable benefit if fuel is provided by the employer for private travel.

For further advice on minimising your tax liability ahead of the year end, please contact us.

Business Round-Up

New Charities Online service

Charities that have claimed Gift Aid in the last three years are being advised to sign up for the new Charities Online service.

Charities and community amateur sports clubs (CASCs) can use the new electronic service to claim Gift Aid tax repayments, reclaim tax on other income, and claim a top-up payment under the Gift Aid Small Donations Scheme (GASDS).

It is hoped that the system will speed up and simplify the process of making a repayment claim, saving valuable time for charities and CASCs.

There are now three new options for making claims. Option one will be for charities that file Gift Aid claims for fewer than 1,000 donors. Option two is for larger charities that make claims for over 1,000 donors, while option three applies to those few charities that do not have the internet and involves completing a ChR1 paper form.

It is thought that online claims will normally be paid within three working days, compared to the 26 days it previously took after filling in an R68(i) form. Errors in the process will be detected by built-in checks before the form is sent.

The new service has replaced the R68(i) print and post repayment form, which became obsolete on 1 October 2013.

NEST restrictions to be lifted

The Government has announced that restrictions on the National Employment Savings Trust (NEST) will be removed from 2017.

NEST is a trust-based, defined contribution pension scheme that was set up to support automatic enrolment and make sure all UK employers have access to a suitable pension scheme to meet their employer duties.

While NEST offers low to moderate earners a simple, low-cost way to save for retirement, certain restrictions apply. There is currently a contribution cap of £4,500 as well as a ban on transfers in and out of the scheme.

However, from 2017 scheme members and employers will be able to use NEST as they would any other pension. The restrictions on the amount they are able to contribute will be lifted and transfers in and out of the scheme will be allowed.

Whilst the scheme may offer a simpler way for employers to meet their new auto-enrolment requirements, it is unlikely to appeal to high earners or workers who would like a greater degree of choice and higher contribution levels. Employers may therefore want to consider retaining or setting up their own qualifying pension scheme in order to attract a wider range of staff. As always, we recommend that you seek professional advice.

For more information on NEST visit www.nestpensions.org.uk.

Don't miss the self assessment tax return deadline!

The deadline for filing your 2013 tax return online is 31 January. Returns not filed by this date will result in a £100 penalty. Further penalties will be payable for prolonged payment failures.

We can prepare and file your tax return with HMRC, as well as advise you on which payments are due and when you should pay them.

Web Watch

Essential sites for business owners

realbusiness.co.uk
Online magazine for entrepreneurs and SMEs.

ukgreenpower.co.uk
Green energy comparison website.

www.xperthr.co.uk
Employment law advice and other HR resources for employers.

www.ukbusinessforums.co.uk
Online forum for small business owners and managers.

Reminders for your Winter Diary

December 2013

30 Last day for online submission of 2013 Tax Return for HMRC to collect tax through clients' 2014/15 PAYE code, where they owe less than £3,000.

31 Last day for non-EU traders to reclaim recoverable UK VAT suffered in the year to 30 June 2013.

End of relevant year for taxable distance supplies to UK for VAT registration purposes.

End of relevant year for cross-border acquisitions of taxable goods in the UK for VAT registration purposes.

End of CT61 quarterly period.

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

January 2014

1 Due date for payment of Corporation Tax for period ended 31 March 2013.

14 Due date for income tax for the CT61 quarter to 31 December 2013.

17/22 Quarter 3 2013/14 PAYE remittance due.

31 First self assessment payment on account for 2013/14.

Capital gains tax payment for 2012/13.

Balancing payment – 2012/13 income tax/Class 4 NICs.

Last day to renew 2013/14 tax credits.

First payment due date for 2013/14 Class 2 NICs.

Deadline for amending 2011/12 Tax Return.

Last day to file the 2013 Tax Return online without incurring penalties.

February 2014

1 £100 penalty if 2013 Tax Return not yet filed online. Additional penalties may apply for further delay. Interest starts to accrue on 2012/13 tax not yet paid.

2 Submission date of P46 (Car) for quarter to 5 January.

14 Last date (for practical purposes) to request NIC deferment for 2013/14.