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SMEssentials

Your Spring edition of SMEssentials.

This is your Spring edition of SMEssentials, our newsflash designed to provide you with a brief summary of the latest tax, HR and general business news affecting SMEs.

TAX NEWS

Changes to the taxation of dividends

From 6 April 2016, the Dividend Tax Credit will be replaced by a new tax-free Dividend Allowance. Under the new Dividend Allowance the first £5,000 of dividend income will be tax-free and you will only pay tax on any dividends you receive over £5,000. This shake up will represent one of the biggest rises in headline Income Tax rates for more than 40 years.

If you have not already done so, and if you do not currently have an action plan in place to address these changes, we strongly recommend discussing this matter with your advisers. Timing and total dividend income for the current tax year are the key issues to consider.

To ensure you are prepared, we recommend considering the following three factors:

1 Companies with year-ends after 6 April 2016 should consider declaring an interim dividend before the end of the tax year to determine whether or not there is a taxable benefit between stating this pre or post tax year-end. For example, a director who draws their personal allowance (£10,600) as their salary and has net dividend income to date of £20,000 could take an additional £8,000 net dividend without paying any additional tax in 2015/16. Whereas, using the same scenario in the 2016/17 tax year, an additional £1,725 personal tax liability would be due by 31 January 2018, assuming that their remuneration remains the same and dividends are £28,000.

2 If you have maximised the majority of your basic rate dividend band, and are not looking to pay the higher dividend rate of 32.5%, you have the option of transferring part of your wife or civil partners personal allowance, if this has not been fully utilised in 2015/16.

3 When planning the impact on your personal tax liabilities you should consider the long and short-term implications on your company's balance sheet and whether this is consistent with your business, investment and finance plans.

If you would like an indication of the impact that the new Dividend Allowance is likely to have upon you and your business, why not try our free online calculator by visiting our website at: www.uhy-uk.com/taxation-dividend-calculator.

More red tape for SMEs?

In the 2015 Autumn Statement, the Chancellor announced that businesses, self-employed workers and landlords would be required to update their tax information on HMRC's digital system on a regular basis. HMRC have now published further details in their plan 'Making Tax Digital' but will this increase burdens on small businesses?

HMRC's aim is to establish a fully digital tax system by 2020 and forecasts that it will generate an additional £610 million through this shift to a digital system.

There are currently more than two million small businesses with online tax accounts and by April this year, every individual and small business should have access to one. Online tax accounts will then require businesses to use specially approved software to keep records of income and expenditure. These records will need to be submitted to HMRC on a quarterly basis, as a minimum, and inevitably as the programme rolls out tax will be paid earlier than now. This is just the beginning of the process. In future, HMRC intends to collect and process more information in real time.

These plans signify a more intensive and intrusive method of data collection from HMRC. SMEs will be required to spend time that they may not have on tax reporting, which may impact on efficiency. Additionally, the data gathered online is likely to lead more quickly into HMRC launching tax enquiries into SMEs and sole traders.

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BUSINESS ADVISORY NEWS

The importance of business planning

Speaking to new and prospective clients, we are often alarmed at the volume of SMEs who have not developed a long or short-term business plan. Too often businesses can fall victim to focusing on the output and turnover rather than recognising future cash flow problems. Business planning is, therefore, imperative to successfully operate, manage and grow any SME.

To emphasise the importance of business planning, we have highlighted five key reasons below.

1. To plan for the unexpected

Often many unpredicted events can occur in the external environment, therefore, businesses should ensure provisions are in place to protect against any unwarranted events. For example, cybercrime and intellectual property are becoming an increasingly alarming issue for many companies. Installing the correct level of protective software and firewalls will protect both your business and clients. Legal advice on intellectual property is extremely worthwhile in the long-term and any patents put in place (depending on the activity) could potentially save a business.

2. To help grow your business

Having a business plan to refer to will allow you to track your growth against your objectives, whilst providing value and clarification to stakeholders who are seeking investment and crowdfunding.

3. To commit to a course of action

Business planning reduces time, avoids confusion and decreases deliberation in decision making. For instance, if your company has committed to producing a product in a certain way, business planning will help ensure that there is no delay in launching.

4. To manage cash flow

A business plan will ensure that you are fully aware of your monthly, quarterly and annual financial commitments. This should include a timeline of your obligations in terms of HMRC, VAT, wages and finance. Recording this information will enable you to decipher how much sufficient cash is available. This will also provide greater flexibility in responding to emerging dilemmas or making critical decisions.

5. To ensure all bases are covered

Strategy planning will enable you to determine the factors that may affect your business, from initial concept right through to launch, as well as the resources required and determining key drivers for success, rather than just solely concentrating on the initial idea.

Irrespective of how long you have been trading, business planning is essential. Additionally, your business plan should be continuously reviewed and updated, where appropriate, to reflect changes in your internal and external environment.

HR NEWS

A new tax year always brings change and, for both employers and employees, there are many changes that will come into effect from April 2016.

National Minimum Wage increase

The most significant change, and arguably the easiest to understand, is the new age bracket being introduced to minimum wage. From 1 April 2016 there will be a new living wage for over 25's of £7.20 per hour (currently £6.70 per hour). This 'living' wage is, in effect, a new minimum wage, simply with a different name.

Therefore, from 1 April 2016 you must pay all employees the following national minimum wage rates; failure to do so will result in financial penalties.

Category of worker	Hourly rate
Aged 25 and above	£7.20
Aged 21 to 24 inclusive	£6.70
Aged 18 to 20 inclusive	£5.30
Aged under 18	£3.87
Apprentices aged under 19	£3.30

New National Insurance Contributions category for apprentices

With effect from 6 April 2016, if you employ an apprentice under the age of 25 you may not need to pay employer Class 1 National Insurance Contributions (NICs) on their earnings below £43,000 per year (£827 per week). In order to qualify, the apprentice must be following an approved UK Government statutory apprenticeship framework and the employer must retain evidence that they meet the criteria. This can consist of either a written agreement between the employer, the apprentice and the training provider or alternatively, in England and Wales, evidence that the apprenticeship receives Government funding.

If you have any employees aged under 25 who you employ as an apprentice, you must inform your payroll department once they have been employed to ensure their NICs are calculated correctly. To facilitate this change you will need to use the new NIC category, H.

Employment Allowance

From April 2016 the Employment Allowance will increase to £3,000 per annum. This means that eligible employers can reduce their NICs bill by up to £3,000 in the tax year. However, eligibility for the Employment Allowance has been further restricted so that limited companies with a single director and no other employees will not be able to benefit from the allowance from 6 April 2016.

Grandparental leave

The Chancellor has announced that from 2018, under the Shared Parental Leave Scheme, grandparents will be able to share up to 50 weeks' leave with their child in order to care for their grandchildren in the first year after birth or placement for adoption. The Government hopes that this scheme will provide an option for parents to return to work more quickly, whilst encouraging more grandparents to remain in employment, rather than leaving their jobs to help with childcare. It is believed the policy will particularly benefit single mothers, who cannot currently choose to share parental leave, but will now be able to do so with one of their child's grandparents.

PAYROLL NEWS

Real time collection of tax on benefits

Most SMEs will know that the preparation of forms P11D (returns of Benefits in Kind) is often an extremely time consuming exercise involving the collection of information from various sources. However, from 6 April 2016 you will have the option to process benefits (excluding vouchers, accommodation, beneficial loans and credit tokens) through your payroll, thus removing the need for P11Ds for most directors and employees. This new process will involve five steps:

1 The employer must determine the cash equivalent of the specified benefit. This is ascertained by using the rules which are used to value Benefits In Kind for P11D purposes;

2 Determine the number of 'main relevant payments' (the number of regular wage or salary payments during the year) made to the specified employee in the tax year;

3 Divide the cash equivalent of the benefit by the number of regular payments. The resulting amount is the taxable amount of the benefit which is to be included in the payroll;

4 Add the taxable amount of the benefit to the employee's first main regular payment; and

5 Deduct tax on the amount included in the payroll by reference to the employee's tax code.

If you wish to take advantage of this scheme, you will need to register with HMRC before 5 April 2016. Additionally, It should be noted that this only affects Pay As You Earn but not National Insurance, since most Benefits in Kind are within the charge to Class 1A (employer only) NICs.

The importance of reporting hours worked

With the further roll out of the Universal Credits benefit system, HMRC have issued a reminder of the importance of including the number of normal hours worked on each submission. For employees with regular working hours, the band that they fall into must be included on their payroll record. This includes:

Band A – up to 15.99 hours

Band B – 16 to 23.99 hours

Band C – 24 to 29.99 hours

Band D – 30 hours or more

Band E – Other (for employees with irregular working patterns

Are you ready for auto-enrolment?

When auto-enrolment was originally planned, it was estimated that 1.3 million employers would be required to comply. Recently, however, the Pensions Regulator has increased the estimate by 500,000. This is welcome news for the economy as it indicates an increase in the number of new start-up businesses over the past three years. However, nearly all of these additional businesses are small (less than 50 employees) and most have not yet reached their first staging date. This means that there will be a very large number of employers (approximately 350,000) staging in the summer of 2017. Additionally, there will be approximately 250,000 employers commencing auto-enrolment in the first quarter of 2018.

Employers may, therefore, encounter difficulties in seeking the most appropriate advice at these peak periods. There are various statutory stages to complete and each employer must select the appropriate pension arrangement for their workforce. This also applies to businesses or organisations where the workforce consists of only one person (in addition to the sole director).

If you are an employer who has not yet reached your staging date, we strongly recommend starting the process early.

> "Eligible employers under the Employment Allowance can reduce their NICs bill by up to £3,000 in the tax year!"

> "There will be approximately 250,000 employers commencing auto-enrolment in the first quarter of 2018."

> Only 18% of UK SMEs consider themselves to have a 'complete understanding' of cyber-related threats.

IT NEWS

How can you protect against cybercrime?

An ever-increasing issue, cybercrime is turning into the watchword of 2016 with the annual cost of cybercrime to global businesses at £200 billion. As the risk of cyber threats continues to grow, businesses need to be proactive in order to protect themselves from cyber criminals.

So what is cybercrime and how does it affect SMEs? Cybercrime can be defined as specialist criminal groups who target anyone from individuals, small businesses and large corporations to steal personal information in order to profit from the compromised data. SMEs are often not as attractive to hackers in terms of rewards, however, they often represent soft targets for small criminal groups or hackers trying out new methods of attacks.

Worryingly, only 18% of UK SMEs consider themselves to have a 'complete understanding' of cyber-related threats, according to the UK Cyber Risk Survey Report 2015. So how can you protect your customer, clients and company data? We recommend the following:

- ensure you have a written information security policy in place which is supported through regular staff training;
- allocate responsibilities clearly amongst your key personnel;
- use a firewall and manage internet activity, restricting or blocking chat sites;
- implement software patches;
- encourage staff to adopt smart passwords using a combination of upper and lower case text, numbers and symbols;
- keep your admin users to a minimum, protecting usernames, passwords etc;
- scan for malware across the business;
- beyond the business – at home, on the road, using laptops, mobiles, tablets etc. approve the personal equipment being used, insist on antivirus software, have the ability to wipe the device clean remotely and ensure the encryption of data;
- have a disaster recovery plan;
- maintain logs and records, test your systems regularly, monitor for unusual levels of activity and be alert to potential attacks;
- apply security patches on a timely basis and create an inventory of application; and
- when engaging external advisers, be sure to set clear parameters and identify key confidential information that they cannot share with others.

Above all else, you cannot afford to mistakenly treat the matter as an issue just for your IT function; all staff need to be actively involved.

How can you protect against email scams?

We have recently seen a rise in the number of email scams whereby criminals impersonate a colleague to deceive other employees into transferring money into a fraudulent account.

The scammer will send an email to your accounts department which will appear to be from a senior colleague requesting a payment be made to a third party company. This process is a form of 'spoofing' whereby the scammer creates an email message using a forged sender address.

Many spoof emails can be extremely hard to spot, therefore, it is of upmost importance that your staff are aware of the practical steps they can take in determining whether an email is genuine.

To assess whether an email is legitimate, you should consider all of the following indicators:

- An internal email, even if sent from a mobile phone, will only display the sender's name in the 'from' field. However, if it is an external email which is using the identity of an internal recipient it will often have inverted commas around it eg. 'Robin Jones'.
- When replying to an email, always check the 'to' field. If it is an internal contact or a contact that you have saved within your address book, then this field should only display the person's name. An email from an outside source impersonating someone will often appear like this: Robin Jones <name@fakeemail.com>.
- Is the tone or language of the email normal? Are there lots of spelling errors? Do they fail to use your name?
- Are they asking you to do something irregular such as bypass a standard policy?
- If you have a suspicion about any instruction given by email, speak to the person who gave the instruction, ideally in person or on the phone.
- When replying, even if to a regular contact, do not give out any private or confidential information, be wary of anything asked of you and always ask yourself why the information would be needed by that person.

For further information, please visit our website to download our factsheet: www.uhy-uk.com/resources-publications.

THE NEXT STEP

For further information on any of the above, please contact your usual UHY partner or one of our central marketing team on: 020 7216 4600 who can put you in touch with the relevant person.