FRAUD PREVENTION
Keeping your business protected

AUTO-ENROLMENT INCREASES
Pension contributions are rising

CAUGHT IN A TAX TRAP?
The high income child benefit charge

dte business advisers

Financial UPDATE

SUMMER 2019

Finding the right benefits blend

Employees increasingly expect more than a 'one size fits all' approach

Our Services:
Business Advisory & Audit • Corporate & Personal Tax Planning • Business Improvement • Small Business Support • Corporate Finance • Transaction Services • Tax Consultancy • Personal & Corporate Financial Planning • Forensic Accounting • Technical Support to Professional Partnerships • Payroll Outsourcing

If you would like to discuss any issues raised in this newsletter please contact marketing@dtegroup.com or email marketing@dtegroup.com

https://twitter.com/DTEAdvisers https://www.linkedin.com/company/dte-business-advisers-ltd

www.dtegroup.com

iStock/driftlessstudio

Summer 2019

In this issue...

With Brexit now potentially postponed until Halloween, the country remains on tenterhooks while the rounds of negotiations for an exit deal begin again. Meanwhile it's business as usual. Our feature looks to more positive matters, highlighting the benefits of taking a flexible approach to your business, exploring how employers can accommodate flexibility in the workplace in order to improve the wellbeing of the employees as well as feel the benefit for their business. It may go some way to countering the reduced pay which employees face due to the auto-enrolment pensions increases, covered on page 6. We warn against the pitfalls of the High Income Child Benefit Charge: individuals earning over £50,000 must pay back a percentage of child benefit or face back payments and penalties. And MTD for VAT has arrived! Check the processes you must have in place as the new digital filing system is now live.

Cover image: iStock/GoodLifeStudio

TAX

Swings and roundabouts of income tax changes

The personal allowance for 2019/20 is now £12,500 and the higher rate income tax threshold has increased to £50,000 for those outside Scotland – a year earlier than promised.

These increases are well ahead of inflation – 5.5% for the personal allowance and 7.9% for the higher rate threshold. But both figures are set to remain unchanged for 2020/21. So are these increases as beneficial as they appear and how can you make best use of them?

EMPLOYEES

For an employee with earnings of £50,000, the income tax saving compared with 2018/19 is a quite respectable £860. However, the changes have a knock-on effect for NICs, because main rate employee class 1 NICs are now payable up to the £50,000 threshold. So for 2019/20, NICs have increased by £340.04 – reducing the net benefit of the personal allowance for such employees.

Then, once the higher workplace pension contributions for 2019/20 are taken into account, there could well be an overall monthly shortfall of just over £42 – not quite what was expected. Most better-off pensioners, however, benefit from the income tax saving without suffering the drawbacks.

COMPANY OWNER-MANAGERS

Company owner-managers can avoid the NIC increase if they withdraw at least some of their profits as dividends. The increased contributions to workplace pensions probably are not directly relevant for them, although clearly they can't afford to ignore the need to provide for their retirement. If a company owner-manager each year draws a salary of £8,000 and dividends of £75,000, their income tax and NIC liability in 2019/20 will be £961.25 less than in the year before.

COUPLES

The higher personal allowance and tax threshold provide more scope for married couples and civil partners to reduce their overall tax liabilities. The increases represent at least another £1,000 of potential tax savings where one partner is an additional rate taxpayer and the other has little or no income. Whether such a tax saving is possible depends on the extent to which income can be transferred:

- With a partnership, more profits could be allocated to the lower-income spouse/civil partner.
- With a family company, the lower-income partner could receive higher dividends (or possibly even salary).
- Investment income could be reallocated, typically through the joint ownership of the underlying assets.

There is also more scope for reducing a capital gains tax liability if one of the spouses or civil partners has not fully used up their basic rate band. However, the maximum potential savings by doing this will be 10%, based on the difference between their tax rates (20% minus 10%).

Please get in touch if you would like to start planning early in the 2019/20 tax year.

iStock/Jennifer_Sharp

iStock/xijian

BUSINESS

Safeguarding against fraud

Even very large companies can be hit by a highly destructive fraud, as some recent high-profile cases have shown. How well is your business protected?

The reported figure for fraud in 2018 is nearly £750 million, but the true figure could be much higher – over £37 billion by some estimates. Many businesses prefer to deal with fraud internally to avoid reputational damage, with possibly only one in 50 cases of fraud being reported.

The most common type of fraud is 'third party fraud' committed against an individual or group of individuals by an unrelated or unknown third party. Research indicates that straightforward greed is the main motive, followed by gambling, depression, addiction or other health problems.

Businesses of all sizes may become the victims of fraud perpetrated by third parties or by employees. Auditors will not necessarily spot fraud. As David Dunckley, chief executive of Grant Thornton, told a parliamentary Select Committee in January, "we are looking in the past and we are not set up to look for fraud".

Third party fraud may come from suppliers, customers or potential customers, employees, or people pretending to be any of these, and technology has facilitated its growth. Online fraudsters can tap the wealth of information available on social media to create fake emails and business profiles that appear genuine.

'Phishing' emails that pretend to be from some reputable organisation, like a bank or HMRC, can lead to the loss of confidential data and passwords to criminals.

Fraud is more difficult to perpetrate where there is a formal policy of separating out duties, with strict supervision and internal controls. It is essential to set a clear division between the person requesting a transaction and the person authorising payment.

PROTECTION MEASURES FOR BUSINESSES

- **Ensure virus firewalls are up to date and maintained.**
- **Ensure everyone in the business uses strong passwords and updates them often.**
- **Only authorised people should be able to place orders and make payments.**
- **Make sure that more than one person is involved in making payments above a set amount.**
- **Consider installing electronic monitoring systems to detect unusual financial activity or movements of data.**
- **Encourage staff to question orders, invoices etc that 'don't look right'.**

Keep a look out for employees making sales to non-existent customers or making false entries in business records, such as under-reporting goods received. An action list could include:

- Keep your business assets register up to date and back it up with physical checks of assets.
- Reconcile shipment records with sales invoices.
- Test financial statements for unexpected changes in margins, turnover and costs.
- Keep valuable assets securely. For example, don't allow keys for vehicles to be left around in an open office.
- Establish controls on who has access to critical information in the organisation.
- Look out for employees who appear to be under stress.
- Watch out for staff who never take time off – especially in the accounts department.

Gambling is a major motive for fraud and businesses can take steps to remove this temptation by restricting employees' access to online gambling platforms on company devices, and by setting clear policies on gambling at work.

EMPLOYMENT

Finding the right benefits blend

One size rarely fits all. Flexible working has become widespread in many businesses, reflecting changes in technology as well as employees' expectations about their work–life balance. Now the idea is spreading to pay and benefits, so how could it work for you?

The concept can include everything from flexible access to salary, flexible work options, financial wellbeing benefits and flexible pension options. But most employers don't offer so much flexibility to their employees, because they think that the costs and time involved in administering these schemes are likely to outweigh the benefits. However, perhaps you can find an approach that is beneficial to both your business and your employees.

Ideally a benefits package could be tailored to suit each individual employee's needs. For example, many employees simply prefer to have fewer benefits in favour of a higher salary, and some are even prepared to sacrifice holiday entitlement in exchange for a pay rise. Others would happily cut back on benefits if it meant more holiday. So flexibility could help retain current employees and also help recruit the best talent.

SMALLER EMPLOYERS

Smaller employers may not be in a position to offer a full range of flexible pay and benefits. However, some options should be possible.

- **Flexible pension options**
  Employees can choose to save more for their retirement, which is particularly important given that many employees feel unprepared financially for giving up work. Financial advice and retirement seminars are obvious add-ons which can help minimise financial stress.

- **Flexible training**
  Employers can provide a fixed amount that employees can spend on training courses unrelated to work, improving productivity and creativity in the day job.

iStock/GoodLifeStudio

- **Workplace loans**
  Employees can access a proportion of their salary, interest-free, before the normal payday. Such flexibility will help employees avoid debt and cope with unexpected expenses. Moving away from a fixed payday to flexible pay cycles will achieve the same thing.

FLEXIBLE WORKING

Flexible working has traditionally been seen as flexitime, but there are other approaches to working flexibly, such as job sharing, working from home and moving from full-time to part-time work. Thinking creatively could enable employers to offer compressed hours: working the same number of hours but over fewer days, annualised hours (working a fixed number of hours annually, with flexibility outside of core hours), and staggered hours (having different start, finish and break times from other workers).

> *Many employees simply prefer to have fewer benefits in favour of a higher salary; others would happily cut back on benefits if it meant more holiday.*

Such flexibility allows an employee to take more control over their work–life balance, often without seeing their pay suffer. Parents appreciate the flexibility, and working from home removes the time, cost and stress of commuting.

A MULTI-GENERATIONAL WORKFORCE

One of the greatest challenges to offering flexible working is that the workforce might consist of several age groups. Flexibility therefore needs to span every stage of an employee's life, from coping with student debt to transitioning towards retirement. The key to getting this right is listening to what employees actually want, rather than making assumptions based on their age.

For example, help with childcare cannot be aimed at a specific age group because an older employee might adopt or a grandparent might want to take grandparental leave. Although younger and older employees may be presumed to have the most needs, it is just as important not to forget those in the middle – their children might have gone away to university, but now they support older parents needing care.

One straightforward option is to allocate employees an allowance to spend on whatever suits them, especially as a complex list of potential options can be difficult for an employer to manage.

Group risk products can be useful because they can cater for multi-generational needs, whether through income protection, help with sourcing care for older people, providing probate and bereavement helplines, second medical opinions or fast-track access to counselling and support groups. However, care needs to be taken in how such products are structured, particularly around potential tax liabilities.

Flexible thinking around what a business can offer is the first step.

TAX

Non-residents feel the pinch

The scope of the UK capital gains tax (CGT) regime now includes gains by non-residents on the disposal of non-residential UK property. The change came in on 6 April.

Indirect disposals are now caught as well. If that were not bad enough, the government is consulting on the introduction of a 1% stamp duty land tax (SDLT) surcharge for residential property purchases by non-residents in England and Northern Ireland.

CAPITAL GAINS TAX EXTENSION

Non-residents were already taxed on UK residential property gains. The changes mean that disposals of interests in any type of UK property are now caught by CGT. The indirect disposal rules apply on the disposal of a company or other entity where at least 75% of its asset value is derived from UK property. There is an exemption for investors who hold less than a 25% interest.

The value of a property can be rebased to its April 2019 value, so that only subsequent gains are taxed, and this option is available for both direct and indirect disposals. Of course, the original cost of the property can always be used if it would mean a smaller taxable gain.

SDLT SURCHARGE

The 1% SDLT surcharge applies to non-UK residents who buy residential property in England or Northern Ireland. Non-UK resident companies will also be caught, and in this case the 1% surcharge is likely to be applied on top of the 15% anti-avoidance rate for residential properties worth over £500,000.

iStock/martince2

PENSIONS

Contributions rise for auto-enrolment pensions

Employers and employees have both been hit since 6 April with a large rise in contribution rates for automatic enrolment pension schemes.

The employer's minimum contribution has gone up from 2% to 3% of band earnings and the total payment into the scheme is now 8% – up from 5%. So if an employer pays no more than the minimum, the employee will have to put in 5% – previously 3%.

Only earnings between the national insurance contributions lower earnings limit and the upper earnings limit are counted for calculating the minimum. For 2019/20 this is the earnings between £6,136 and £50,000. The percentage contribution is calculated on all types of earnings – including salary, bonuses, overtime and statutory payments – but not benefits in kind.

The large rise in the upper earnings limit this year (from £46,350 in 2018/19) has added to the burden for higher earners and their employers. For an employee earning £50,000 or more, the employer's minimum payment has risen from £806 in 2018/19 to £1,316, and the employee's contribution from £1,210 to £2,193.

The employee's percentage is based on pre-tax salary. But tax relief of 20% means in effect that the employee pays 4% of earnings and the government adds 1%.

LOWER TAKE-HOME PAY

The increase in contributions will have a noticeable effect on employees' take-home pay and many will have a long wait before they feel the benefit. Employees may be subject to many financial pressures and they may be unhappy about the increased deduction. Employers should make sure their staff understand the deduction and the importance of saving for their retirement, especially as the age at which they will receive the state pension is rising.

Employers who wish to avoid the disincentive effect of reduced take-home pay could contribute more than the minimum. For example, if an employer pays 5% rather than 3%, employees could continue to pay the 3% deducted in 2018/19, as long as the total contribution still comes to 8%.

All staff are affected by the auto-enrolment pension contribution increase if they are aged between 22 years and state pension age and earn over £10,000 a year. Employers must therefore monitor the ages and earnings of their employees to ensure they are enrolled in the pension scheme (or removed from it) when one of these thresholds is crossed.

In addition, any employee can ask to join the pension scheme if they are aged between 16 and 74 and earn at least £6,136 a year. Employees can opt out of auto-enrolment, but the employer must then re-enrol them every three years and complete a re-declaration of compliance. The employee can, of course, opt out again.

The contribution percentages remain the same regardless of age. However, the amounts people need to contribute to achieve the level of income they want in retirement will vary. For example, a 25-year-old need only save about half as much as a 35-year-old to end up with the same retirement fund at 65.

Employees who only make the minimum auto-enrolment pension contributions may find that their retirement fund does not meet their needs – and the older they are, the larger the shortfall is likely to be.

iStock/masterzphotois

TAX

Caught in the high income child benefit tax trap?

iStock/SolStock

Parents and carers with income of more than £50,000 may face large backdated tax bills plus penalties if they have not been paying the High Income Child Benefit Charge (HICBC).

Anyone who is responsible for a child can claim child benefit of £20.70 a week for the first child and £13.70 for each further child. However, if your adjusted net income is more than £50,000 and you or your partner has claimed child benefit, you will have to pay back 1% of the benefit for every £100 by which you have exceeded that limit.

You will have to repay all the child benefit if the adjusted net income is over £60,000. Adjusted net income is broadly taxable income minus pension contributions and gift aid donations.

To pay the HICBC you need to complete a self-assessment tax return. Anyone who does not already complete a tax return must register for self-assessment by 5 October following the tax year in which the charge first arises.

THE CATCH FOR THE UNWARY

There is a particular problem for some people whose income has increased above £50,000, but have not realised that the onus is on them to complete the tax return and then pay the tax. When they eventually register, or HMRC catches up with them, these people are faced with a back payment from the date when their income first exceeded £50,000, plus penalties for the late declaration.

> *Some people are facing back payments from the date when their income first exceeded £50,000, plus penalties for the late declaration.*

HMRC knows each taxpayer's income and which individuals claim child benefit, but that information does not include the identity of both parents. The position is complicated by the fact that the person claiming child benefit may not be the higher earner.

Back in November 2018, HMRC announced that it was reviewing penalties for failure to notify liability for HICBC for the three tax years from 2013/14 to 2015/16. So the penalty may be withdrawn where the taxpayer has a 'reasonable excuse' for the failure, but there will still be a tax charge, which could amount to several thousand pounds.

One way to avoid liability to HICBC is for neither parent to claim the child benefit, but doing that may result in another danger. In some circumstances, it could lead to a loss of state pension rights. If a parent is off work and not paying national insurance contributions (NICs), they receive credits towards their state pension by claiming child benefit for a child under 12.

HMRC estimated recently that 200,000 parents risk losing out on state pension by not claiming child benefit. Where one parent works and the other does not, the child benefit claimant can be changed to the non-working parent. Alternatively, just the NIC credits could be transferred to the non-working parent.

If the working parent earns more than £60,000, so that the whole of the child benefit would have to be repaid, a non-working parent could make a claim to obtain the NIC credits, but opt not to receive the benefit payments.

EXAMPLE

Francis and Mary have two children. Their child benefit entitlement is therefore:

52 x (£20.70 + £13.70) = £1,788.80

Mary is the higher earner, with an income of £56,000. She pays £2,000 into her workplace pension, so her adjusted net income is £54,000 (£56,000 – £2,000). Regardless of who claims the child benefit, Mary is liable to HICBC of £715.52 (£1,788.80 x 4,000/100 x 1%).

iStock/nrqemi

TAX

Advisory fuel rates fall

HMRC's latest advisory fuel rates have been reduced across the board, except for diesel cars with engine sizes of 1,600cc or less which are unchanged.

Fuel prices were relatively high throughout much of 2018, but they fell towards the end of the year with this trend continuing into 2019.

The advisory fuel rates per mile from 1 March are shown below.

The advisory electricity rate for fully electric cars is 4p per mile. Hybrid cars are treated as either petrol or diesel models.

Rates can only be used to reimburse employees for any business travel in their company cars, or where employees are required to repay the cost of fuel used for private travel. The next review is 1 June, although current rates can also be used throughout June.

Engine size	Petrol	Diesel	LPG
1,400cc or less	11p	10p	7p
1,401cc to 1,600cc	14p	10p	8p
1,601cc to 2,000cc	14p	11p	8p
Over 2,000cc	21p	13p	13p

VAT

It's alive! MTD for VAT

It's finally here. Making Tax Digital (MTD) for VAT went live at the start of April. HMRC research in February indicated that over four out of five businesses were aware of MTD, but more than half of them were not planning to sign up by 1 April.

Most VAT registered businesses with a taxable turnover above the VAT registration threshold of £85,000 must now keep their records digitally because of MTD. They are also required to file their VAT returns using software that can communicate with HMRC through its Application Programming Interface (API).

Digital reporting is only required for complete VAT quarters starting on or after 1 April 2019. The first quarterly VAT returns will become due for businesses that file a return for the quarter ending 30 June 2019, with a deadline of 7 August for businesses to file and pay their VAT.

iStock/FlamingoImages

Fortunately, HMRC has promised a 'light touch' approach towards businesses in the initial one-year 'soft landing' period. So, for example:

- Businesses will not need to set up digital links between software programs – HMRC will temporarily accept 'cut and paste' instead.
- Penalties will not be issued for late filing, but they will be charged for late payment.
- A business that has made a genuine mistake in reporting will not be charged a penalty.

The 'soft landing' period will continue until at least April 2020, giving businesses time to adopt the right software and set up the digital links. Over a third of businesses have had to upgrade or source new accounting software to prepare for the introduction of MTD, according to the British Chambers of Commerce. HMRC has not produced its own free software.

If you have a business that you have not yet registered for MTD, bear in mind that registration takes seven working days to complete. And those who pay VAT by direct debit will need to register at least seven days before submitting a VAT return. HMRC will send a confirmation email within 72 hours of a business signing up. If you have a VAT-registered business with a UK taxable turnover below £85,000, you do not have to register it for MTD, but you can if you wish.

If a business cannot meet the MTD obligations, it may be possible to claim an exemption, for example if its premises are too remote to obtain internet access, or the owner has a disability that prevents the keeping of digital records.

Please get in touch with us if you have any questions on MTD.

DTE Offices

Manchester
6th Floor
Royal Exchange Building
St Ann's Square
Manchester M2 7FE

Tel: 0161 819 1910
Fax: 0161 819 4749

Bury
The Exchange
5 Bank Street
Bury Lancs
BL9 0DN

Tel: 0161 767 1200
Fax: 0161 767 1201

dte business advisers

https://twitter.com/DTEAdvisers
https://www.linkedin.com/company/dte-business-advisers-ltd