Quarterly Update
Summer 2014 Issue

# Reducing the Administrative Burden on Businesses

**Welcome to our Summer newsletter. In this issue we are taking a look at a couple of new initiatives; one applying to limited companies, the other to unincorporated businesses, both of which have resulted from the government's stated objective of reducing the administrative burden on small businesses.**

**If you fall into the relevant category for either initiative and would like to take advantage of the changes on offer then please contact us directly to discuss what would need to be done in your specific case.**

**In addition we look at the related subject of simplified expenses including that old chestnut "use of home as office".**

**As ever, if you have any specific queries please contact us on 01932 353165.**

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Recently legislation and initiatives have been introduced in an effort to deliver on the government's promise to reduce "red tape" across the business spectrum. We look below at those which are likely to have most impact for our clients, although it is far from clear whether either achieve the stated aim in all cases.

## Incorporated businesses

### Micro-entities

A new sub-classification of small company known as a 'micro-entity' has been introduced the advantage of which is that the amount of information to be reported is significantly less than that currently included in small company accounts.

The legislation came into force on 1 December 2013 and is effective for financial years ending on or after 30 September 2013, where the company's financial statements are filed at Companies House on or after 1 December 2013.

### Qualification

A company that meets any two out of the following three conditions can be deemed a micro-entity:

- turnover of not more than £632,000
- balance sheet total of not more than £316,000
- average number of not more than 10 employees for the financial year.

Some entities are however specifically excluded, such as LLPs and charities but subsidiary companies not included in consolidated group accounts can qualify as can parent companies that are not producing consolidated accounts on the basis that the group is small.

### Accounts format

A directors' report still needs to be prepared, with the same requirements as for a small companies but both the balance sheet and profit and loss account are a simplified summary.

Notes to the accounts are not required although where applicable, disclosure must be made at the foot of the balance sheet of transactions with directors as well as guarantees and financial commitments.

### Public record

Only the balance sheet is required to be filed at Companies House

### H M Revenue & Customs

Although the mechanics of how micro-entity accounts will be filed with HMRC is not yet clear, it is thought that they will have to accept them. However, as they will not meet the current minimum requirements set by HMRC, they may require additional information to be filed along with the accounts.

### Advantages

It is expected that the main benefits arising will not be cost savings rather they will occur due to the simplification and additional choice conferred on micro-entities. There will be limited benefits in terms of time savings. While it will take marginally less time to prepare and check a micro-entity set of accounts, it is not the presentation of the accounts that takes time and money; it is largely the aggregation and preparation of the information following generally accepted accounting practice.

Due to the simplification of accounts formats, however, it is possible that micro-entities may be able to avoid the need for external accountancy and bookkeeping services.

### Disadvantages

There is a potential loss of transparency giving rise to the possibility that credit rating agencies and banks, for example, may need provision of additional information that could hold up credit decisions. It may be the case that additional non-statutory analysis is necessary in order to satisfy external reporting needs.

## Unincorporated businesses – individuals and partnerships

### Cash accounting

Originally announced in the pre-Budget statement in November 2012 cash accounting has come into effect for the 2013/14 tax year.

### Qualification

Businesses must be unincorporated with total receipts for the financial year below the VAT registration threshold (£79,000 for 2013/14 increasing to £81,000 for 2014/15). They must leave the scheme once receipts exceed twice the VAT registration threshold.

An election must be made to use the cash basis which is done by ticking the appropriate box on the tax return.

### Basic principles

To determine the profits of a trade for a tax year using the cash basis you firstly calculate the total amount of receipts during the basis period and then deduct from that the amount of expenses paid in the period. This is then subject to any of the usual tax adjustments that may be necessary.

### Receipts

Receipts include all amounts received in connection with the business when they are received. There is no longer a distinction between revenue and capital items so receipts would include the proceeds from the disposal of assets as well as insurance proceeds.

### Expenses

Expenses are generally allowed when paid, provided they are wholly and exclusively for the purpose of the trade and subject to the usual tax adjustments. As with receipts there is no distinction between capital and revenue items such that if the payment would have qualified for capital allowances it will qualify for deduction when paid out.

There are a couple of exceptions relating to motor vehicles and interest. Whilst the acquisition of both goods vehicles and motor cycles can be treated under the general provisions above, tax-relief for the purchase of a motor vehicle will continue under the capital allowances rules. Loan interest can only be claimed up to a maximum of £500.

### Losses

Losses arising under the cash basis can only be carried forward and offset against future trading profits.

### Advantages

Cash accounting is much simpler as there is no requirement to include trade debtors, trade creditors, accrued or deferred income, accruals, prepayments or stock. For some businesses this may reduce the accounting records that need to be maintained to just a cash book and appropriate mileage records and purchase invoices for cars.

It is possible that this will remove the need to engage external accountancy and bookkeeping services.

### Disadvantages

Whilst it may no longer be necessary to maintain extensive accounting records for tax purposes they may be required to ensure adequate management of the business.

As suggested above in relation to micro-entities there is a potential loss of transparency giving rise to the possibility that credit rating agencies and banks may need provision of additional information that could hold up credit decisions.

In specific circumstances the rules on loan interest and loss relief may not offer the best position to the taxpayer.

## Simplified expenses

### Qualification

This is different to cash accounting in that it is available to any business that is assessable to income tax but it can be used together with cash accounting if appropriate.

### Motor vehicles

Under this regime a fixed allowance for business mileage is claimed rather than deductions for actual expenditure. This cannot be applied where either capital allowances have been claimed or a cash deduction made for the purchase price on acquisition but otherwise business miles can be claimed at 45p per mile for cars, reducing to 25p after 10,000 miles per annum, and 24p for motor cycles.

The only supporting evidence required for the claim is a business mileage log.

### Use of home as office

This also allows for a flat rate deduction rather than the apportionment of actual costs between private and business use.

Based on the number of hours worked per month the deductions are as follows:

| | |
|---|---|
| 25 or more | £10.00 |
| 51 or more | £18.00 |
| 101 or more | £26.00 |

### Private use of business premises

This is far more unusual than “use of home as office” and in many ways is the reverse in that it is an “add back” to expenses rather than a further deduction. It applies where premises are primarily used for the purposes of a trade but are also used by the taxpayer as a home.

The adjustment is based on the number of occupants and is once again a monthly amount:

| | |
|---|---|
| 1 | £350 |
| 2 | £500 |
| 3 or more | £650 |

## NEWS IN BRIEF

### National Minimum Wage

The national minimum wage rates will increase with effect from 1 October 2014 to:

| | |
|---|---|
| Main rate (21 years and over) | £6.50 per hour |
| Youth rate (18-20 year olds) | £5.13 per hour |
| Development rate (16-17 year olds) | £3.79 per hour |
| Apprentice | £2.73 per hour |

Note: the apprentice rate applies to apprentices under the age of 19 and to those over 19 but in the first year of apprenticeship.

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