



Chartered Accountants ► Taxation Consultants ► Business Advisers



Newsletter  
February 2017

## 2017 RICHARD WALLER TAKES A FLYER!

MARK WITHINGTON, TAX MANAGER

This will be the year that Richard takes off – literally, as he will be skydiving from 13,000ft, hopefully with a parachute. This was a 50<sup>th</sup> birthday gift from one of his many generous clients (who we think he upset!).

To honour this occasion Richard is taking the opportunity to fundraise for three charities that have special personal meaning to him and the KM team, being RNLI, Skiing With Heroes and Cure Leukaemia.

Prior to the jump, which is booked to take place in early March, Richard will receive training before being strapped to a qualified tandem instructor to fly through the clouds at up to 130 mph! He has been assured that it is a truly unforgettable experience.

100% of the funds raised will go straight to the charities and help them continue their amazing work. The chosen charities rely solely on the generosity and support of the public to continue making a difference for which Richard and the KM team would love to generate as much support as possible.

Please take a look at Richard's charity page at [www.virginmoneygiving.com/richardwaller5](http://www.virginmoneygiving.com/richardwaller5) to find out more. Your support and donations will be very much appreciated.

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## CHANGES TO THE VAT FLAT RATE SCHEME

The VAT Flat Rate Scheme is designed as a simplified accounting scheme for small businesses with a turnover no more than £150,000 a year, excluding VAT, under which they apply a flat rate percentage VAT determined by their business sector.

From 1 April 2017 businesses using the scheme must also determine whether they meet the definition of a “limited cost trader”. A “limited cost trader” will be defined as one that spends less than 2% of its VAT inclusive turnover on goods (not services) in an accounting period.

When working out the amount spent on goods, it cannot include purchases of:

- capital goods (such as new equipment used in a business)
- food and drink (such as lunches for staff)
- vehicles or vehicle parts (unless running a vehicle hiring business).

A firm will also be a “limited cost trader” if it spends less than £1,000 a year, even if this is more than 2% of the firm’s turnover, on goods. Limited cost traders can still use the Flat Rate Scheme, but their percentage will be 16.5%. To complicate things further there will also be transitional measures affecting services supplied on or after 1 April 2017 that are paid for or invoiced before that date.

The Government believes small businesses have been abusing the FRS so it is changing the terms of the scheme to make it less attractive to use and to reduce the cash advantage enjoyed by service-related businesses.

**Teresa Ford, [teresa@kennethmorris.co.uk](mailto:teresa@kennethmorris.co.uk)**

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## DON'T MISS OUT ON R&D TAX RELIEF

The government is concerned that many small companies are missing-out on generous Research & Development tax credits. H M Revenue & Customs have been offering companies an advance assurance scheme to check if their activities qualify before they make a claim. So far over 200 applications for advance assurance have been made.

There is a general misconception that R&D involves scientists in white coats but it should be remembered that R&D may be necessary to resolve a problem with a product or a process, so some of the work by your engineers or technical staff may qualify as R&D.

For Small and Medium-sized Enterprises the tax credit is 230% of the expenditure on qualifying R&D and where the company incurs a trading loss, HMRC will provide an immediate cash refund rather than waiting until there is a profit in a future period.

### **Companies eligible to apply for advance assurance:**

- Turnover below £2m
- Fewer than 50 employees
- No previous R&D claims

### **Then ... claim “Patent Box” in respect of your innovation**

If the R&D results in a product or process that can be patented there is a further tax break available. The “Patent Box” will provide a 10% rate of tax on profits derived from that product or process.

We have several clients who are benefitting from these tax breaks, so we have considerable experience. Please contact us to discuss whether these tax breaks could be available to your company.

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# MAKING TAX DIGITAL — IT WON'T GO AWAY

In 2016 HM Revenue & Customs issued six consultation documents on Making Tax Digital “MTD”.

Under Making Tax Digital, from 2018 every business owner large or small, including landlords, will use software to record income and expenses either manually or by scanning receipts, and then every quarter submit a summary “update” of that information to HMRC. After the accounting year end a final submission will be required making five 'updates' in all. The taxpayer will be able to log onto his own digital tax account where some information will already be pre-loaded. So far, this will be bank interest, P60 pay and tax figures and Construction Industry Scheme income. Later, dividends from PLCs and rental income from properties let via letting agents will be included.

HMRC's dream is of its customers purchasing sophisticated software to scan and load invoices and receipts automatically. It also envisages the use of bank-feed software to load data directly from bank accounts into the submission. MTD will place additional burdens on tax payers with some being forced to make the move to digital record keeping. Many small businesses won't be able to afford the higher cost of sophisticated software.

The good news is that at KM we have a variety of on-line solutions ready to meet the digital needs of all our clients. If you are interested in getting ahead of the game, please get in touch.

We will continue to keep you informed of developments, but it seems unlikely HMRC will back down as they see this as a digital revolution for the tax system to cut red tape for businesses.

**Rob Hill, [rob@kennethmorris.co.uk](mailto:rob@kennethmorris.co.uk)**

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## TO KEEP OR NOT TO KEEP

The length of time you need to keep tax records depends on the types of income you earn and the types of tax you are paying. A list of time limits is set out below:

- **Income and Capital Gains Tax - If you are not in business**  
One year from the 31 January following the end of the tax year.  
For 2016-17 keep until 31 January 2019.
- **Income & Capital Gains Tax - If you are in business (including rental income)**  
Five years from 31 January following the end of the tax year.  
For 2016-17 keep until 31 January 2023.
- **A company subject to Corporation Tax**  
Six years from the end of an accounting period.  
For the year ended 31 December 2016 keep until 31 December 2022.
- **VAT**  
You should keep records for at least six years.
- **PAYE**  
You should keep payroll records for three years after the end of a tax year.  
For 2016-17 this would be until 5 April 2020.

These deadlines can be extended. For example, if you file your return late, a return is subject to an enquiry or compliance check, or an asset is bought which is expected to have a life beyond the time limit.

If you just cannot bear to part with paper please feel free to keep it longer otherwise declutter and enjoy!

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## ROB HILL: ACCOUNTS MANAGER

In July 2016 Rob Hill joined KM as a Client Manager working closely with the Directors and the Accounts Team.

Rob qualified as a Chartered Accountant in 2010 and specialises in the audit of owner managed businesses.

Rob is married to Fiona (another accountant) and the couple's main passion is global travel with their favourite destinations being Sydney, New Zealand and Route 66 in the USA.

Individually Rob dabbles in photography, crown green bowling (following in his parent's footsteps), golf and running. He recently ran the Abersoch Half Marathon for charity.

As a self confessed petrol-head he loves his car and thrashed the KM team recently in an office go-karting event.

We are delighted that Rob has joined us and he is eagerly contacting and meeting clients of the practice.



## KM BUSINESS CLUB

On 18 October 2016 the KM Business Club Event — Brexit Breakfast — An Economic Update took place at Worcester Warriors Rugby Club. The guest speaker was Graeme Chaplin Regional Agent of the Bank of England. Graeme has been the Agent for the West Midlands and Oxfordshire since 17 November 2008.

Graeme gave a brief overview of the UK and Global economic outlook post Brexit covering corporate and business investment perspectives as well as the impact on households.

The presentation ended with guests representing a wide range of industries entering into a question and answer session.

If you are interested in future Business Club events, please contact Sue Bellingham on 01527 872888 or by e-mail to [sue@kennethmorris.co.uk](mailto:sue@kennethmorris.co.uk)



BANK OF ENGLAND



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