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Balancing Business

News and information from Baker Chapman & Bussey

Autumn 2015

The key to spotting fraud

BEFORE IT'S TOO LATE

According to Action Fraud one in four small businesses are affected by fraud every year, with an estimated cost in 2014 of £18.9 billion. Small businesses can be particularly vulnerable through lack of controls, minimal segregation of duties and a lack of cynicism. Small businesses are often owner managed, which in itself can be a good control, but quite often that owner can be so busy running the business, reacting to customers and dealing with everyday activities, that they don't see what is going on under their noses until it is too late. Sadly, particularly vulnerable to fraud are clubs and charities.

Periodically the local newspapers report on fraud cases that typically involve trusted employees who identify an opportunity, sometimes by accident, and then take advantage. Often in these cases the employee will be under personal financial pressures, and they plan to remedy the situation before they are found out, but of course it then spirals out of control.

So how can the small business owner identify fraud and the possibility of fraud? If it is not practical to add more controls without stifling the running of the business, then it is important for the owner/manager to regularly and critically review key financial data in order to spot potential anomalies.

Other areas to watch out for in respect of employee activity include:

- Expense claims
- Incorrect timesheets
- Unauthorised use of company assets for personal use
- Payment authorisation

Small businesses can also be vulnerable to fraud from external sources. Much publicity is given to computer hacking, email scams, credit card and identity fraud, but there are also less recognised and less hi-tech methods.

In respect of customers it is important to know who they are before you give them credit. Fraudsters are very good actors and will lead you into a false sense of security, sometimes over an extended period, before they hit with the final deception. Watch out for things like:

- Irregular purchasing patterns
- Requests to dodge your normal procedures
- Lack of interest in the product they are buying
- Delivery addresses that do not tie in with business premises
- Overpayment of invoices, followed by a request for a refund. Make sure the original payment clears the bank, and allow the proper clearance time before issuing the refund

In respect of suppliers some things to watch out for are:

- Fake invoices, which can include charging VAT when not VAT registered
- Changing payment arrangements – has your supplier really changed their bank details or is someone posing as your supplier to get you to re-direct payments?
- Advance payments, especially for services such as advertising.
- Overcharging for goods and services.

Fortunately most people you deal with will be law abiding citizens or known customers but instances of fraud regularly crop up and it is good business practice to always be on your guard.

When preparing accounts for clients, we have occasionally spotted an issue but it is usually too late by then to be able to recover any lost money. We are always pleased to discuss controls or systems you can put in place if you consider it necessary, so please do not hesitate to come to us for advice.

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Dividend...

...OR SALARY?

In the recent post-election Budget the Chancellor announced measures to reduce the tax advantages enjoyed by company owners who at present receive a low salary but high dividends.

For several years it has been tax efficient for a company owner to extract money from the company by taking a small salary, equal to the national insurance lower threshold, and draw the balance in dividends. Since dividends do not attract national insurance both employee and employer NIC is saved. The new measures will reduce this saving as there will now be an additional income tax cost; however, for many people it will still be cheaper to take dividends. Currently the tax position is:

- **Basic rate taxpayers**
  No additional tax on the dividends.
- **Higher rate taxpayers (40%)**
  Additional tax of 25% of the net dividend (or 32.5% of the gross dividend less the 10% dividend tax credit).
- **45% taxpayers**
  Additional tax of 30.6% of the net dividend.

From 6 April 2016 the dividend tax credit is to be abolished and tax will be charged on the amount actually received.

The first £5,000 of dividends will be received tax free; the excess will be charged at 7.5%, 32.5% and 38.1% depending on your total income. Anyone who receives dividends of less than £5,000 will pay no more tax than before and for those with dividends greater than £5,000 taxation will vary depending on their other income - some will pay less, some will pay more.

- **A typical small company**
  Assuming £10,000 personal allowances, a basic rate band of £32,000 and a maximum distribution of available profits:

Company Profits	40,000	60,000
Salary	(8,000)	(8,000)
Corporation Tax	(6,400)	(10,400)
Post Tax profit	25,600	41,600
Dividend	(25,600)	(41,600)
Personal tax 2015/16	Nil	2,750
Personal tax 2016/17	1,395	4,495

Planning points:

- If there are distributable profits in the company then it may be worth accelerating the payment of a dividend to before 5 April 2016 in order that it falls in the current tax year.
- Depending on the taxpayer's total income, it may be worthwhile to consider additional salary or bonus paid in March 2016.

These are new rules and we do not yet have all the answers, especially relating to how dividends are to be treated for non-UK residents. We will be discussing the effects with our clients over the coming months.

Reminders

BUSINESS MILEAGE

If you are claiming business mileage rates remember to keep a proper record of your business trips and make sure you can justify the mileage claim if required to do so. Remember that ordinary commuting is not allowable. There have been several tribunal cases where this point has been confirmed and is an area likely to be questioned in more detail by the Revenue.

If you are not sure what mileage can or cannot be claimed, please contact us.

PENSIONS

Just to remind everyone that since the new rules on pensions came into effect earlier this year, scams relating to pensions have been on the increase.

Don't get caught! Your pension pot is something that you have worked hard for throughout your life, so take proper independent advice from a qualified adviser whom you know and trust, and if you are in any doubt, please contact us so that we can direct you to appropriate advice.

Rental income

TAXATION CHANGES AHEAD

Many of you will have seen or read commentary on the Budget announcement regarding the restriction of tax relief on mortgage interest for residential landlords. This unexpected restriction limits tax relief to interest paid at basic rate (20%) only, and it is to be phased in over four years from 2017.

Until now any mortgage interest paid on a loan to purchase a let property was offset against the rental income in exactly the same way as other expenses, with the landlord paying tax on the net profit. It is proposed to allow tax relief on interest at 20% only and to allow this as a deduction from the total tax due. Basic rate taxpayers should, in the main, be unaffected but tax for higher rate taxpayers will increase.

The complication is that taxable income will be calculated with no deduction for interest paid and depending on the amount of the interest and other income it will push some basic rate taxpayers into the 40% tax band.

George Osborne said: “Buy-to-let landlords have a huge advantage in the market as they can offset their mortgage interest payments against their income, whereas homebuyers cannot. And the better off the landlord, the more tax relief they get. For the wealthiest, for every £1 of mortgage interest cost they incur, they get 45p back from the taxpayer. All of this has contributed to the rapid growth in buy-to-let properties, which now account for over 15 per cent of new mortgages, something the Bank of England warned us last week could pose a risk to our financial stability.”

The Government also announced that it will be looking at how landlords of residential property account for the costs they incur in providing and replacing furnishings. Currently, landlords of furnished properties can deduct ten per cent of rental income from their profit to account for wear and tear, rather than accounting for the actual costs of the individual items (such as beds, sofas, curtains etc). This allows for simplicity in calculating rental profits but does not necessarily encourage landlords to renew furnishings. It also means landlords can reduce their tax liability even when they have not incurred any costs.

From April 2016 this allowance will be replaced with a new system that requires all landlords of residential property to deduct only the costs they actually incur. Helpfully, the Government will also look at the inequality of the costs of replacing white goods, following previous budget changes where built-in white goods have attracted full tax relief whereas free-standing items attract none.

Tax has never been simple or logical and some of these changes just go to show how important it is to understand what and how to account for rental income. If you are not sure use a professional and please come to us for advice on the forthcoming changes.

Auto enrolment

YOUR CHECKLIST

From March 2015 small employers will have received notification of their staging date - the date they must start auto enrolment. Larger firms will have been notified before this date.

The first action is to log on and register with The Pension Regulator (TPR). This will give you a nominated and secondary contact. TPR will be sending out further letters and reminders as you near the staging date.

We have previously written about the cost and effect auto enrolment will have for businesses and this article covers some of the administrative points you now need to consider.

- If there are no eligible employees (typically a sole director company or husband and wife where there are no contracts of employment) then you can notify TPR of this fact and they will amend their records accordingly. If this applies to you, act sooner rather than later!
- If you already have a pension scheme you must review it to see if it qualifies as an eligible scheme, and to ensure that all eligible employees are included.
- For anyone with eligible employees, auto enrolment is mandatory and you must take steps to set up a pension scheme and inform your employees. The scheme must be in place by your staging date.
- You will need to assess your workforce and categorise them into eligible and non-eligible before determining the contributions for each category.
- Consider whether you wish to apply for a 3-month postponement for all staff. This will not change your staging date but it will allow a 3-month waiting period before staff are enrolled, which can be useful if you have new staff who are on a trial period. However you may be able to use this to defer the actual start of your contributions. Remember, however, that formal postponement notices must be issued.

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Auto enrolment

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- You need to determine whether your existing payroll software can deal with the reports and requirements.
- You need to decide whether you can cope with all the administrative tasks or whether you will outsource some or all of these.
- You must begin to get ready for auto enrolment at least a year before your enrolment date.

Auto enrolment is not as simple as the Government may have us believe; it requires administration processes to identify staff, set up the scheme, monitor any staff changes or new recruits and pay contributions.

We provide a payroll processing service to many of our clients and will have the software to process pension contributions and provide the necessary reports. However, we are not able to set up pension schemes, monitor clients' staff or carry out the compliance processes necessary for auto enrolment.

We have been in discussion with a few independent financial advisers to see if we can source a reasonable solution for our clients, and expect to be able to direct clients accordingly very soon. Some of our clients have already undertaken this process with help from their own IFAs or other specialists, and we understand that costs are typically between £1,500 to £5,000.

It is important to remember that this is a mandatory process and non-compliance will result in fines.

We will assist as far as we can but it is up to each employer to make sure they comply. Please contact us if you need assistance.

Update on Ellie

Regular readers will remember that we are delighted to sponsor up and coming squash star, Ellie Hewes. Ellie has enjoyed some recent successes - here's the latest on her progress:

On 11 September Ellie travelled to Cardiff to compete in the Welsh Junior Open where she was included in the draw as number two seed. She competed all day on the Saturday, and made it to the final without dropping a game. In the final she faced the number one seed, who she beat 3-1 to take the title.

September also saw the annual Essex Closed Championships, held at the Garrison in Colchester, where Ellie entered the tournament as clear favourite. She won all of her matches without dropping a game and then, to emphasise her strength, went on to win the final 11-2, 11-2, 11-2, to claim the trophy.

At the end of October Ellie will travel to Manchester to compete in the British Closed Championships where she expects to be the number three seed.

We will continue to follow Ellie's progress closely and we wish her luck!

Dedham Run

On 13 September 2015 the Dedham Run took place. This charity fun run has been part of the Dedham calendar since the 1980s and our own Andy Hewes has taken it upon himself to be the Chair of the organising committee!

The Run gives entrants an option of choosing between a 10 kilometre course for the more serious adult runners or a 3 kilometre course for the junior or less serious adults.

This year the combined entry was over 550 runners and Baker Chapman & Bussey was a proud joint sponsor of the 3K run. Funds raised go to Dedham Primary School.

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