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Welcome to the spring 2018 issue of our Business Matters newsletter

Springtime is the time we associate with new starts. We have not included an update in this issue on Chancellor Philip Hammond's first Spring Statement, however, as this was simply a response to reports from the Office of Budget Responsibility (OBR) and announcements of new consultations to follow. We will, of course provide full coverage of the Autumn Budget later this year.

Here at McCabe Ford Williams spring will see the promotion of Jonathan Fullarton and Mark Greenwood who become partners on 1st April. You can find out more about Jonathan and Mark on pages 1 and 2.

Let's hope spring will also see the start of more clement weather.

We hope you enjoy reading this issue and wish you a Happy Easter.



↑ We meet the creative team at Parkers Design & Print (see page 9).

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April brings new partners at McCabe Ford Williams

We are delighted to announce the promotion of Jonathan Fullarton and Mark Greenwood who will become partners of the Firm on 1st April.

Jonathan is a Chartered Accountant and Accountancy & Finance graduate who has worked in our Dover office for over six years. He works with a wide portfolio of clients, ranging from sole traders to audited group accounts, providing advice on all areas of accountancy and taxation. Jonathan has a great deal of audit experience and takes an active role in the ongoing development of audit practices within the firm.

Jonathan is also a mentor at the University of Kent – Hub for Innovation & Enterprise, a dedicated source of support for student enterprise and start-up guidance. Jonathan is often called upon to offer advice to students, staff and graduates to help their business ideas develop and succeed.

Asked about his promotion Jonathan responded, "Since joining the firm in 2011 it has been one of my goals to become partner. The experience I have gained here, as well as the support of the existing partners, has been fantastic. We have a great team at McCabe Ford Williams and the way in which the partners and staff work closely together means that we are able to provide a high level of service to our clients.



Jonathan Fullarton, BSc (Hons) ACA

Client relationships are important to me and I look forward to continuing to help clients, whether it be to save tax or helping them achieve their goals.

I am very excited about the future of the firm and helping it to continue to grow. I hope that I can be as supportive to our staff as the existing partners have been, and continue to be, towards me."



Mark Greenwood, ACA

Mark started his career in accounting as a trainee for a Folkestone firm back in 2003 where he worked his way up to be the manager for the senior partner, which involved the running of the audit departments and responsibilities ranging from staff management to IT. He qualified as a Chartered Accountant in 2008

In 2014, Mark left practice life to work in industry where he worked for a Folkestone based entrepreneur in a new finance manager role. This included managing the finances of several businesses within the hospitality and property management sectors, including Rocksalt restaurant in Folkestone.

In 2016, after two years in industry, Mark returned to practice at our Ashford office where he has latterly been responsible for the day-to-day running of the office and for a wide portfolio of clients. His role includes carrying out audits, preparing accounts and tax returns and providing advice on all areas of accounting and taxation.

The skills that Mark developed in his previous role as a finance manager have provided him with valuable insight into the day-to-day practicalities of running a business and enables him to provide practical and tailored advice to his clients. Mark prides himself on his no-nonsense approach and plain English speaking.

Mark is also involved in a local Charity, The Shepway Sports Trust, which promotes sports and active lifestyles throughout the Shepway area and is currently building a state of the art skate park in Folkestone.

On his promotion Mark said, "One of the things that prompted my return to practice was the opportunity that I felt McCabe Ford Williams could offer me both in terms of my career and experiences and also in terms of a diverse and interesting client base. I found that I had missed the ongoing client relationships and the opportunity to provide help and advice. I found that, while in industry, some accountants that approached me looking for me to become a client took the 'blind by science' approach. I've always believed that we should not look to patronise our clients and should breakdown information to make it clear and easy to understand. This is an approach, I'm pleased to say, that McCabe Ford Williams take.

This is an exciting opportunity at a growing, dynamic and well-respected firm. I am passionate about client service and care and look forward to continuing the fine traditions of the firm."

Comment from senior partner Ian Pascall, FCA.

"Ours is a very much a 'people business'. It's one thing to know the law, it's another to apply and explain it.

Both Mark and Jonathan are excellent accountants and communicators and I am delighted to be able to welcome them into partnership."

Payroll update

As a new tax year begins, there are a number of employment and employment taxes changes to be aware of:

Increases in the National Living Wage (NLW) and National Minimum Wage (NMW).

This might be the time of year when you are thinking about pay rises for your staff and/or budgeting for the coming year. In this regard, you need to be aware of two changes, being an increase in the National Living Wage (NLW) and National Minimum Wage (NMW), and an increase in pension contributions.

From 1 April 2018, the following increases apply:

Employees over 25 (NLW)	from £7.50 per hour to £7.83 (that's 4.4%!)
Employees aged 21-24 (NMW)	from £7.05 per hour to £7.38
Employees aged 18-20 (NMW)	from £5.60 per hour to £5.90
Employees aged 16 and 17 (NMW)	from £4.05 per hour to £4.20
Apprentice NMW	from £3.50 per hour to £3.70

As you can see, the increase is quite a bit above the rate of inflation. The Low Pay Commission has indicated that the NLW is likely to rise to "around £8.20 ph." in 2019/20 and "around £8.60 ph." in 2020/21.

National Minimum Wage - avoiding common errors

- For employees who are paid the minimum wage please note, in particular, the following two points:
 - 'Expenditure connected with the job' such as uniforms, tools and safety clothing will reduce pay for minimum wage purposes and in these circumstances cannot be taken.
 - Contributions towards the cost of a Christmas party are not statutory or work related; they are also for the benefit of the employer. Therefore, if they would reduce the employee's pay to below the minimum wage rate they cannot be taken.
- Tips from customers do not count towards the National Minimum Wages, regardless of how they are paid to employees. However, they are taxable.
- The Apprentice rate needs to be considered carefully. An apprentice 'is a person employed under certain apprenticeship schemes', detailed by the Department for Business, Energy and Industrial Strategy (BEIS). Workers who are not apprentices by this definition must be paid the relevant age-related rate rather than the apprentice rate.

Pensions

Under pensions auto-enrolment you, as an employer, have been required to contribute 1% of gross pay all the while that the employee also pays 1%. From 6 April 2018, those percentages increase to 2% (employer) and 3% (employee).

There are also further increases to pension contributions from 6 April 2019 to 3% (employer) and 5% (employee).

HMRC is now claiming interest on liabilities paid before they are due!

Therefore, given the above NLW increases, the employer is effectively funding the employees' extra pension contributions. To the cynics amongst us, that comes as no surprise.

For labour intensive businesses this will be a real cost that has somehow to be absorbed or passed on to customers.

Tax-free childcare rollout update

The Chief Secretary to the Treasury has confirmed that the childcare payments scheme (tax-free childcare) is now open to children up to the age of nine (those born on or after 15.1.09). The scheme will be opened up to all remaining eligible families with children under twelve years of age on 14.2.18.

(Ministerial Written Statement 15.1.18)

Please contact us <https://mfw.co.uk/contact/> if you wish to discuss the implications of the above or require any assistance with either budgeting/costing or payroll processing.

For directors considering putting their solvent company into liquidation we would recommend paying all liabilities to HMRC in advance of winding up, even if the amounts paid are estimated, pending figures being finalised post liquidation. The reason for this advice is a change of policy by HMRC that now requires statutory interest be paid on Corporation Tax (CT) where it is paid post liquidation, even if it is paid before the normal due date.

HMRC are relying on a decision in one of the Lehman's cases for this change in policy. That case indicated that statutory interest was due on both future debts, and contingent debts, and since CT payable on a normal due date after the commencement of a liquidation is a future debt then statutory interest falls due. While that judgement related to an Administration HMRC are arguing that in view of the similarity in wording in the legislation then it applies equally to liquidations. The standard letter that they are sending to liquidators with the demand for statutory interest says:

"Our understanding of the correct treatment of statutory interest derives from the decision of David Richards J in *Re Lehman Brothers International (Europe)*; *Lomas v Burlington Loan Management Ltd*. In a supplemental decision, he restates his conclusion that "interest under Rule 2.88 (statutory interest) is payable on future debts and on the amount admitted to proof in respect of

contingent debts from the date on which the administration commenced.

We appreciate that these decisions related to Administrations but given that the provisions set out in Rule 2.88 of the 1986 Rules were mirrored by Section 189 and Rule 4.93 and are repeated in the current Rule 14.23 (with Section 189 still applicable) they would appear equally applicable in a winding up."

This is effectively a hidden tax on entrepreneurs since HMRC are receiving interest that would not be due other than for the decision to cease trading to permit the members to extract their capital from the company.

Finally, there are rumours in the industry that statutory interest will also be payable on any other taxes that fall due for payment after the commencement of the liquidation, such as VAT, PAYE and NIC. So to avoid the risk of 8% interest being claimed by HMRC from the date of liquidation to the date of payment we would strongly recommend that all liabilities to them be paid in advance of winding up".

For further information please contact Amanda Ireland or Alison Collier on 01795 433655.

Are you maximising Research and Development opportunities?

As part of a Government drive to encourage innovation, UK based companies may be eligible for tax relief if they are involved in Research and Development (R&D). The government is committed to encouraging more small and medium sized (SME) companies to claim R&D tax relief.

R&D tax relief can only be claimed by companies that have incurred expenditure on qualifying R&D projects that are relevant to the company's trade. A project should address an area of scientific or technological uncertainty and be innovative. The innovation needs to be an improvement in the overall knowledge in the relevant field of research, not just an advancement for the company. An important point to appreciate is that the activity does not have to create something completely new from scratch.

Advance Assurance

Companies who have not applied for R&D tax relief before, with turnovers of £2m or less and with less than 50 employees can apply to HM Revenue & Customs (HMRC) for "Advance Assurance" before their first R&D claim. HMRC will consider the R&D project and then give assurance that they will allow the claim without further enquiries for the first three accounting periods. It is there simply to give comfort that your company will qualify for R&D tax relief before incurring the costs of preparing claims.

Tax relief available to SME companies

SME companies can claim "enhanced deductions" against its taxable profits for expenditure which is qualifying R&D expenditure. The amount of the enhanced deduction is currently 130%. This is in addition to the actual expenditure, giving a total deduction of 230%. If the R&D claim creates a tax loss, then the company

may be able to surrender the loss for a cash repayment of 14.5%. An alternative scheme, R&D Expenditure Credit (RDEC), is available to large companies but is not detailed in this article.

SME examples

To illustrate the above, if a company has turnover of £700,000 and allowable costs of £400,000, its profits chargeable to corporation tax will be £300,000. At a corporation tax rate of 19%, this will be a tax liability of £57,000. If £100,000 of the £400,000 allowable costs was qualifying R&D expenditure, then the enhanced deduction would be £130,000 ($£100,000 \times 130\%$). The enhanced deduction of £130,000 is then deducted from the £300,000 profit when working out the corporation tax liability. This then gives an adjusted profit of £170,000 which at 19% is a tax liability of £32,300. Meaning a corporation tax saving of £24,700.

If a company has turnover of £450,000 and costs of £400,000, its profits chargeable to corporation tax will be £50,000. At 19% corporation tax this will be a tax liability of £9,500. If £100,000 of the £400,000 costs were qualifying R&D expenditure, then the enhanced deduction would, again, be £130,000 ($£100,000 \times 130\%$). The enhanced deduction of £130,000 is then deducted from the £50,000 profit when working out the corporation tax. Deducting the £130,000 from the original profit of £50,000 gives an adjusted loss of £80,000. This loss can be surrendered for a cash repayment at 14.5%, in this situation £11,600. Meaning, overall, the company is better off by £21,100.

If a company has already made a loss before the enhanced deduction, then the company can surrender the R&D expenditure and the enhanced deduction for a cash repayment. So, with a £100,000 R&D spend,

this would be the £100,000 plus the £130,000 giving a total amount surrendered of £230,000. At 14.5% this would give the company a cash repayment of £33,350.

Using the R&D expenditure and enhanced deduction against profits will give a saving at the rate of corporation tax (currently 19%). This is, obviously, better than surrendering for a cash repayment of 14.5%. However, if there are no profits to utilise the R&D against, receiving a cash repayment will help the company financially.

Help with R&D

If you think you may qualify for R&D and would like to talk to us more about it, please do not hesitate to contact your local MFW office to discuss this further.



Jonathan Fullarton, ACA
Dover

Taking the stress out of tax

Daniela Jarosova is a Chartered Certified Accountant (ACCA) based in our Sittingbourne office. She is also a Chartered Tax Adviser (CTA) having achieved the UK's gold standard CTA tax qualification.



In her role, she advises clients on the best strategy for their business, helping them to save money in the process. This can be anything from answering ad-hoc queries to more complex and involved tax planning exercises. Fundamentally, she helps our clients to understand all the available tax reliefs they can access.

Her work is varied and includes, helping clients through the incorporation process by advising on the best course of action, advising on R&D tax reliefs and providing VAT and family tax planning advice. Whether you need advice on how best to dispose of a business, if or how you should offer employees incentives, to assess whether you qualify for Entrepreneur's relief, or any other tax advice you can be sure to find the help you need.

HMRC enquiries

Daniela has recently assisted a client dealing with a stressful and involved tax enquiry. Despite 'all the odds' stacked against the client Daniela successfully dealt with HMRC and was able to effect a positive outcome. Our client, needless to say, was both delighted with the result, and extremely grateful to Daniela for reducing the stress and worry the enquiry had caused.

If you have a tax concern you need help with you can book a free initial consultation with Daniela or other members of our tax team, including other CTA qualified advisers, who will be delighted to help.

Contact your local MFW office by visiting www.mfw.co.uk/contact

Did you know?

Our Tax Investigation Service can help protect against random HMRC's tax investigations. For more details please refer to page 07.

Are you protected in the case of a HMRC Tax Investigation?

HMRC has collected a total of £3 billion from enquiries generated by its multi-million pound database system, Connect, since 2008, according to a recent report. This represents a return of 37.5 to one on investment and means that the Revenue is likely to continue to rely on the system to identify targets for further investigations.

Connect allows HMRC to cross-reference information supplied on tax returns with data on individuals' and businesses' finances stored elsewhere.

It gathers information from multiple public and private sources, allowing for the quick identification of any discrepancies or possible under-reporting.

The system is also allowing HMRC to 'zoom in' and keep 'tabs on' taxpayers' day-to-day activities. Officials can now track ticket sales and passenger information supplied by airline companies, for instance. Particularly striking is the gathering of information from social media. HMRC are now monitoring online posts about holidays, parties and purchases and may, therefore wish to ask questions where they feel a lifestyle does not fit in with an individual's reported income.

Tax Evasion Hotline

As well as gleaning all available information about you and your income and spending habits, the Revenue is also using Connect to establish whether leads from everyday informants via HMRC's Tax Evasion Hotline are also credible. With HMRC now paying out record sums to informants, (they handed out over £605,000 during the course of last year) this is likely to further increase numbers of investigations.

Whilst many of the leads generated by Connect's collation of wide ranging data are likely to be worth following up, a proportion will be unfounded but will still need defending. Even if found innocent, the time and associated costs of defending a tax investigation still have to be met by the taxpayer and costs can be very high.

MFW Tax Investigation Service

As part of a thorough service, we offer our clients a solution in the form of our Tax Investigation Service. For a small annual fee, our clients can sign up for this service which, if our client is unlucky enough to become the subject of a HMRC tax investigation, will protect against the cost of our fees for defending most tax investigations. This not only helps save money but also alleviates the time and stresses of dealing with an investigation.

Further details on our Tax Investigation Service can be viewed here <https://mfw.co.uk/taxation/mfw-tax-investigation-service/> or simply contact your local MFW office for more information.



Charity Governance - a reminder

Charities and social enterprise companies face a unique range of legal, regulatory and commercial challenges, so it is important to find and adopt the best legal structure to enable goals to be achieved. That may also mean it is necessary to review and update the charity's structure.

Good charity governance is essential to a charity's effectiveness and will help them to build a stronger relationship between charity trustees, management, funders/donors and other key stakeholders.

In July 2017 the charity sector's governance code was updated www.charitygovernancecode.org/en and in light of recent headlines facing the sector, it is more important than ever that governance practices are fully understood and applied by all.

The code's foundation principle is that all trustees understand their legal duties and are committed to their cause and good governance. There are six key principles which all underpin the organisation's purpose which are:

- Leadership
- Integrity
- Decision-making risk and control
- Board effectiveness
- Diversity
- Openness and accountability

Trustees duties at a glance include:

- Making sure they are legally eligible to be a trustee
- Ensure the charity is carrying out its purposes for the public benefit
- Comply with charity's governing document and the law
- Act in the charity's best interests
- Manage the charity's resources responsibly, reasonably and honestly
- Act with reasonable care and skill
- Ensure the charity is accountable

So that trustee appointments are valid, the rules of the charity's governing document and the law should be followed when they are appointed. If trustee appointments breach these rules they are not valid. It is worth noting that even if a trustee isn't validly appointed, they can still be held liable for their actions and decisions.

Improper trustee appointments can often lead to disputes. The wider implications of this could be long-term damage to the charity's reputation, supporters could be alienated, charity assets might be put at risk and ultimately the charity might be unable to function.

Many charities' governing documents also allow or require some or all of the trustees to be elected by the members, the trustee body to include some beneficiaries and other groups or organisations such as the local authority to appoint trustees. Regardless of how they are appointed, they must act solely in the interests of the charity and not to act on behalf of any particular group. This includes them managing conflicts of interest.

It is always good to take a moment to review your charity's governance and to ensure all of your trustees are aware of their duties and the role required of them to face the challenges ahead.



Blair Gulland

Blair Gulland is Chairman of Gullands solicitors and can be reached at b.gulland@gullands.com 01622 689700 www.gullands.com

Client Profile:

Parkers Design & Print

After a successful 30 year career as a graphic designer working for various agencies and the world's largest pharmaceutical company Pfizer, Jane Ward was seeking a new creative challenge. Whilst freelancing, an opportunity presented itself when one of her suppliers decided to sell their printing business. The idea of taking over the business certainly appealed, but never having run her own business before Jane turned to her husband's accountant Michael Whittaker, partner at MFW Herne Bay for help.

Creating firm foundations

Michael's initial assessment of the limited financial information provided by the vendor was that the price was excessive and several of the conditions of sale whilst advantageous to the vendor would have been detrimental to the future profitability of the business. Michael insisted on seeing the full accounts of the vendor and subsequently justified a significant reduction in the purchase price.

Michael also advised Jane that she was under no obligation to take over the lease of old business equipment and instead she sourced new and more cost effective equipment at a lower monthly cost. Michael also explained the best business structure for her business and helped Jane establish best practices for the day-to-day running of the business, providing further guidance and support. Jane says of that initial help, "I was very reliant on Michael as I was completely green where running a business was concerned - he navigated me very well around many problems in a very calm, collected manner and alleviated many of my worries. He had faith in me which was probably why I persevered".

Making her own mark

To ensure her business would be successful Jane knew that she needed to expand the business offering and this is where Jane's marketing planning skills came into their own. Jane naturally added a design studio but has since added fulfilment alongside project management skills to offer integrated marketing campaigns. Jane and her team provide a virtual marketing manager experience, which Jane likes to refer to as her 'marketing in a box' solution. Customers are able to pick and choose from a range of marketing material and support to receive exactly the right marketing support for their business.

In almost five years since Parkers Design & Print first started trading the business has gone from strength to strength. The team has grown in numbers and the business's premises have expanded. Jane is always busy working to promote her business and to develop their service offering even further and is currently working with another agency to add digital design to Parker's service offering.

The customer is King

It is obvious that Jane and her team love what they do but it is also refreshing how much importance they place on their customer service. When you speak with Jane and her team, you get to understand just how passionate they are about their work and in providing a quality offering without charging the earth. It is surely one of the key reasons for the success of Parkers Design & Print. As Jane sums up, "We will go to the end of the earth for customers as our main aim is for them to be happy with our service and products". It is perhaps not surprising, therefore, to learn that Jane has managed to retain all but a few of the businesses' previous customers whilst gaining many new ones.

Working with MFW

Nowadays, Herne Bay partner Leigh Jones and manager Kate Hickmott also support Jane and her team. Kate visits the business once a month to assist with bank reconciliations, monthly adjustments and VAT payments



Kate Hickmott and Jane Ward

and works closely with the business' bookkeeper Nathalie De Domenici. Kate also meets with Jane once a month to discuss management accounts, reminds Jane when debtors need chasing, and advises on best times to draw dividends.

Leigh and Kate also liaise with Jane towards the end of the year to discuss the business' likely Corporation Tax bill and profit levels, and to provide advice on options for extracting profit in the most tax efficient manner. They also produce and submit accounts and corporation tax returns on the company's behalf. Meanwhile, MFW payroll manager Julian Sadik handles the business' payroll, which is one less headache for Jane.

Jane says of her relationship with MFW, "they have been with me from the start and seen the highs and lows, been on the end of the phone for my panics and moans...alongside sharing the pleasure of seeing my business start to prosper. We now see Kate as part of 'Team Parkers', she translates what can be quite confusing accountancy terms, into layman's terms so that I am actually beginning to understand what is going on (she may dispute this!)".

Jane's dream of running her own business has obviously paid off and she often wonders why she did not make the leap earlier. If you, or someone you know, are looking to fulfil the wish of becoming your own boss, call your local MFW office. We will ensure you also get off to the best possible start.



For more help with print and design call Jane or another member of 'Team Parkers' on 01227 766555 or visit the Parkers Design & Print. www.parkersdesignprint.com



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