Oakwood Reminder

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Business is great but we are always looking for more.
Please pass on this newsletter to anyone you feel may benefit.
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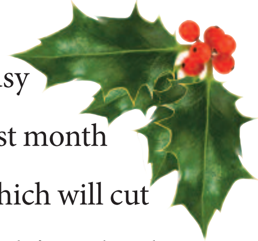
EDITORIAL



Happy Christmas everyone! We've been our usual busy office leading up to the end of the year and our busiest month of January. We are getting to grips with our new software which will cut time to produce accounts and tax returns next year. We didn't realise how much information it needs to be able to support our work, but it is hoped this will help with our turnaround times so we can be even more customer focused.

Every year I say the same and this year is no different. Please do take time away from work and look at where you are and where you want to be, use us to help you get there and just as important, have a good restful Christmas and we all send our best wishes for a peaceful break and a time of refreshment for a healthy and prosperous 2017.

Jane and the team

TURNING PENSION CONTRIBUTIONS INTO TAX-FREE INCOME

There are some drawbacks with pensions, the main one being that you can't get at your money until you reach 55. However, depending on your age, and as the following examples show, you should think of pensions as a medium to long-term investment and not just something for your retirement.

Example 1 – ISA

James is 48 and a higher rate taxpayer. His income recently increased and he wants to invest some of his new found wealth. He's considering a stocks and shares ISA, which after admin charges will return, say 4% (Tax free) per year. If he invests £10,000 per year for seven years his ISA will be worth a little over

£82,000 – a 17.5% growth on the amount invested, which James can take tax free.

Example 2 – pension

If James invested £10,000 per year in a pension, assuming the same rate of return as the ISA, his savings would be worth almost £137,000 after seven years. However, if he were to withdraw it all at once 75% of it would be taxable, and assuming he is still liable to higher rate tax, he would receive £95,000 net – a 37% growth on the amount invested. That's a vast improvement on the ISA and it's the tax breaks for pension savings that make all the difference.

Trap

Depending on the level of James's other income he might need to split taking the pension savings between two tax years to avoid having to pay additional rate (45%) tax. He could do this by, say, taking half his pension fund at the end of March and the other half sometime after 5th April.

Spread the investment

If James is happy to lock his money in until he's 55, then choosing to invest in a pension over an ISA, or other low-risk investments, is a no-brainer. But if he has a wife or partner with a low income he could do even better out of a pension investment.

Tip

While pension contributions are usually only permitted if you receive earnings from work, the rules allow an investment of £3,600 per year regardless. Contributions can be paid by anyone and the usual tax breaks apply.

Example 3 – partner's pension

If James invested the maximum £3,600 per year for seven years for his partner, who has no other income apart from £6,000 of bank interest and dividends, the saving would be worth £29,500 and be tax free after seven years – that's a 47% growth on the amount invested.

COURT OUT

James*, the Chief Executive of a computer and telecoms reseller, which has been in business for more than 16 years, hired Daniel* as Managing Director on a six-figure salary, to help grow the business.

Within a few months of Daniel starting work, however, James found himself the victim of fraud. "Daniel diverted a large consultancy contract of the company, and stole a contract worth £234,000 in profit per annum," he says. "He also stole a database of our leads and customers, and destroyed computer records".

The company initially reported him to the police but received little support. "They were not interested in pursuing white-collar crime, nor did they have the resource or expertise to do so," James explains. "Subsequently, we took him to court, and following a hugely expensive legal case, we were awarded judgment plus costs"

It didn't end there, however, as Daniel refused to pay his judgment fees, then filed a fraudulent IVA (individual voluntary arrangement) application which was rejected by creditors. The company then made him bankrupt.

James finally managed to track down the missing funds after the court case. "With enough determination and a resolute bankruptcy trustee, we managed to find where the cash was hidden, and have brought our former Managing director's wife to judgment also", he says.

*Names have been obscured to protect identities.

REPORT OUT ON TAX AND NI

The Office of Tax Simplification (OTS) has published a report of its findings following a detailed review into bringing tax and national insurance closer together.

According to the OTS, a simpler, more modern and fairer system of taxation would result from bringing the two payroll taxes together, it has also recommended a seven-point plan to achieve this, while warning that the impact of change could be considerable.

The seven key steps recommended by the OTS include introducing an annual aggregated, cumulative assessment period for national insurance similar to the PAYE and income tax system, while setting employers' National Insurance contributions (NICs) as a proportion of their whole payroll costs.

The report also recommends aligning the NICs of the self-employed with those of employees, coordinating the definitions of earnings for both income tax and NIC purposes, and critically reviewing and raising awareness of the contribution principle. In addition the OTS has advised that the rules governing the management and administration of the two types of tax should be harmonised, and taxable benefits in kind should be brought into NICs to remove distortions in the treatment of non-cash pay.

HMRC CLARIFIES TAX BREAK ON GIFTS

Gift Aid

If you're a higher or additional rate taxpayer you can claim extra tax relief for charitable donations you make under the gift aid arrangements. This tax break applies to donations by individuals and not to those made by companies, organisations or groups of individuals. This has caused some newspapers to suggest that where you make donations in the form of a sponsorship, typically through websites like JustGiving, and include a message that implies the gift is from more than one person, such as "Good luck from all of us", you'll lose the gift aid tax break because the sponsorship is not from an individual.

HMRC issued a statement confirming that where the donation (gift) is made by one person, the tax relief is not jeopardised where other names are added to an accompanying message. So you can keep giving and claiming the extra tax relief.

FOUR-STEP MARKETING

Learn to Listen

Successful campaigns begin with listening. What problems or compliments have you heard about your firm and its business? What problems have you heard that your business could solve? When you analyse this, you have an opportunity to reach out with your marketing. Always keep your ears open to find out about new businesses locally that your skills could help.

Perfect your Plan

Once you have a marketing idea, the next step is putting your plan into action. Think carefully about what is best for your business, from coupons, local ads or social media to radio ads. Whatever strategy you use, embrace it and most importantly, believe in it. As Victor Hugo once said: "He, who every morning plans the transactions of the day, and follows that plan, carries a thread that will guide him through a labyrinth …"

Build a Budget

Build up a budget for marketing. Most social media marketing is free but there are times when paying Instagram or Facebook to post an ad involving your firm is worth the price. Marketing is vital to your success so don't skimp. As your business grows, grow your budget. No matter how successful your business is, you must continue marketing.

Stick with Service

Service can really make or break your business. Poor service delivery will leave your clients with a negative impression. If there's another firm that has a better service you need to watch out. Even if they're more expensive than you, your client may think they are well worth the extra.

Keep these four steps in mind with all your marketing efforts and you'll keep on the right track!

BUDGET LATEST - SALARY SACRIFICE SCHEMES RESTRICTED

As anticipated, tax free employee benefits offered by salary sacrifice schemes are to be restricted from April 2017. Employees will no longer be able to opt to sacrifice some of their salary for tax-free benefits in kind. However, all arrangements in place before April 2017 will be protected until April 2018, whilst arrangements in place before April 2017 for cars, accommodation and school fees will be protected until April 2021. Further, the most popular employee benefits, namely childcare, pensions, cycle to work schemes and ultra low emissions company cars, are specifically excluded from the restrictions.

WILL ONE-MAN COMPANIES STILL BE TAX EFFICIENT IN 2016/17?

Company or sole trader?

6th April 2016 was a bad news day for many one-man companies. The tax rate on dividends they received on or after that date increased by 7.5%. So if dividends are their preferred way to extract profit from their business it might be time for a rethink.

The current rule of thumb

For 2015/16 and earlier years, the general rule was that if the business made annual profits of around £25,000 (or more), the most tax-efficient option was for it to be run through a company rather than be unincorporated. The strategy was then to extract the profit as a small salary and the rest as dividends. It was soon realised after the chancellor announced higher tax rates for dividends that the point at which a company was the most tax efficient option would change.

What's the advantage?

Using the profit extraction strategy outlined above, a business run by a company with annual profits of £30,000 would, for 2016/17, be about £700 more tax efficient than an equivalent unincorporated business. At £60,000 the tax advantage is about £3,500. After that the tax advantage tails off and is effectively lost by the time profits reach £130,000 per year. Above that you will actually pay more tax by using a company.

SCAM EMAILS

In recent weeks, we have heard from one of our clients that they have received a scam email, allegedly from HMRC. The email apparently has been sent from "HMRC Fol Act Team, Room 5T/65, 174 Parliament Street, London, ST54 5BQ" and also states that it is a new tax calculation.

The email may indicate that a new tax calculation shows that you are due a tax repayment and HMRC has determined that you are eligible to receive this. It then asks you to click on the link provided in order that the tax refund can be made to you.

PLEASE REMEMBER, HMRC NEVER EMAIL ANYONE – especially in relation to refunds. If you receive an email similar to this, please do not click on the links or provide any bank details.