THE STERLING TIMES

your essential guide to what's new in accountancy this month

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NEWS! Attack on service company expenses

HMRC wants to clamp down on expenses claimed by workers who provide services through certain types of contract. How might this affect you?

HMRC review. A review of the tax treatment of travel and subsistence expenses has been ongoing for some time and the first reforms were announced in the Autumn Statement 2014. But HMRC's consultation launched in December 2014 suggests more radical steps that might prove costly for individuals who provide their own services through a company or partnership.

Who's affected? HMRC's proposals apply where your company or partnership has a contract which requires you to work at your customer's premises. It will apply whether your contract is direct with the customer or through an agency. A typical example of the latter is an IT consultant whose company has a contract with an IT specialist bureau that finds and places them in work with customers.

24 – month rule. Currently, special tax rules allow individuals to claim deductions for travel and related expenses they incur on journeys between their home and customer's premises. This rule only applies if the place at which you work is a temporary location. Broadly, that's where the job lasts, or is expected to last, no more than 24-months. If HMRC's proposal goes ahead, it will disapply the 24-month rule.

Example. Bob is a consultant engineer who operates through his own company based at his home in the Midlands. He takes a six-month contract based on the south coast. To avoid a commute of several hours a day he rents a flat near to the client at a cost of £6,000. Under existing rules the £6,000 is a tax-deductable cost, but under HMRC's proposals a tax deduction wouldn't be allowed.

Tip. To avoid losing out if HMRC's proposal comes into force, you'll need to factor in the loss of tax relief to the fees you charge your customers.

Sterling accountancy

Sterling House
692 Bolton Rd,
Swinton,
Manchester, M27 6EL

Phone: 0161 312 78 23
Fax: 0161 794 81 97
Email: info@sterlingaccountancy.com
Find us on the web: www.sterlingaccountancy.com

Are there advantages to leasing?

Your firm needs to renew some costly equipment and a colleague suggests that leasing might be a better option than buying, but he's vague on specifics. What advantages do leasing arrangements offer?

Financing options

Most businesses need equipment to trade even if it's just a telephone system. Of course, it doesn't come free. Small items costing a few hundred pounds aren't usually a problem, but if the equipment costs thousands you might want to look at alternatives, even if you have enough cash in the bank.

Cash flow

It's easy to assume that because you have cash available you should use it to buy what you need, but this can lead to trouble, as the recent recession showed, for many businesses, cash-flow problems arose when sales dried up and customers started paying more slowly. Committing less cash to buying equipment would have helped. The $64,000 question is how to do it.

Leases v loans

Right from the start of the recession the banks became stingy with loans and overdrafts and even in 2015 they are far more cautious than before. So getting money out of them can be tricky, even if it's for a vital piece of equipment. By comparison, according to the Finance and Leasing Association (FLA), overall its members approve 87% of lease applications.

Balance sheet advantage

Apart from the possibility of being more likely to be approved for a lease than a loan, lessees offer other advantages. One is so called "off balance sheet" improvement. Operating leases, essentially these are straightforward rental agreements, don't appear on your balance sheet in the same way as assets funded by loans and other types of lease. Essentially, future payments due under the contract don't show as a liability. This makes your business look more valuable on paper, which ironically might encourage your bank to lend it money.

End of lease advantage

Another advantage to leases is that at the end of the contract you don't have to worry about selling the equipment, you can just hand it back and let the leasing company worry about it. You can instead take out a lease on a nice new piece of equipment or, if you prefer keep the existing equipment under a new lease at a reduced rental to reflect its depreciated value.

Cash for equipment

Leases can be used for more than acquiring equipment, they can also generate cash from assets you already own.

Tip. Use a sale-and-lease-back arrangement to refinance equipment you already own. If your company is looking for a cash injection, this type of contract can provide it.

Sale and lease back. Usually, the same finance companies that lease equipment offer sale-and-lease-back. We recommend using a finance company which is registered with the FLA.

Misleading reports about new VAT rules

New rules. In November 2014 we advised you about HMRC's new VAT mini one stop shop (MOSS). It has been created to help businesses that sell digital services, such as software and e-publications, within other EU countries comply with new VAT rules that came into force on **1 January 2015**. These new rules say that VAT must now be charged at the rate applicable to the EU country where the digital services is purchased, as opposed to it being based on the country where the seller is located.

Don't ignore this. Since then, you might have read other reports which suggest that small businesses have been given a six-month grace period to comply with the rules. However, this isn't true. What's actually happened is that small businesses which are subject to the new rules may continue to base their "customer VAT accounting decisions on information provided to them by their payment service provider" e.g. a credit card merchant, until **30 June 2015**. So ignore all reports that suggest otherwise. If you're caught by the new EU VAT rules, register for the VAT MOSS – it's been designed to help minimise the additional admin burden..

Connecting to a scammer on LinkedIn?

Important information. Although LinkedIn recommends that you should only ever accept invitations to connect from people that you know personally or who are recommended to you by other members, you'll undoubtedly receive connection requests from total strangers at some point. It's up to you whether to accept them or not but, if you do, don't automatically click on the acceptance link in their e-mail – it could be an attempt to steal your personal information, e.g. passwords etc.

Tip. Instead, log into your account and accept the request from there. It's slightly more time consuming but at least you'll know it's a genuine request before you accept it.

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