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Business Matters

ABTA PARTNER BUSINESS SERVICES NETWORK
HAT Group of Accountants

August 2019 inside this issue...

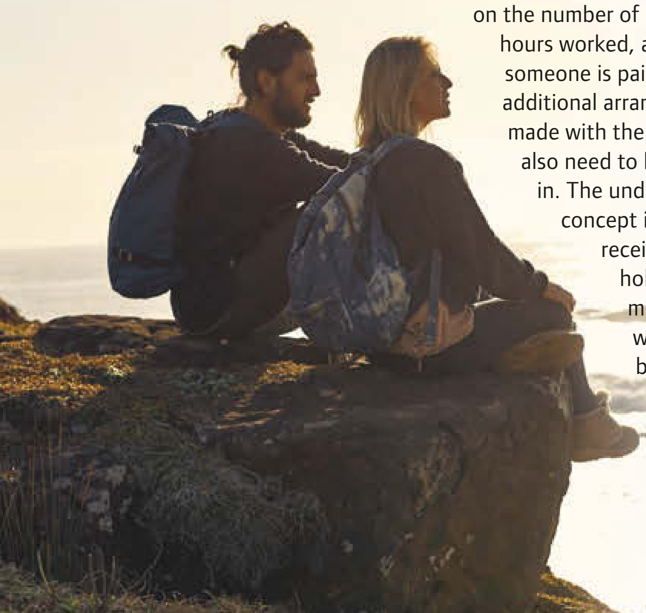
An update on holiday pay

The government has recently been circulating adverts promoting the holiday pay awareness campaign. 'Holiday pay: it comes with the job' is part of the modern Industrial Strategy, which aims to give employers and workers a better understanding of both workplace rights and responsibilities.

Recent research suggests some 1.8 million people currently do not receive the holiday pay to which they are entitled, and means employers are potentially underpaying their workforce by £1.8 billion each year. Those working non-standard hours or in less traditional roles are particularly high-risk categories.

For employers, the issue is about correctly determining employment status, and understanding the rights pertaining to the various employment categories. For tax purposes, there are just two employment categories: employee and self-employed. For employment law purposes, there are three: employee, self-employed and 'worker'. Holiday pay entitlement extends to not just full-time staff, but part-time and zero-hours staff, so it is important employers appreciate this means not just employees, but those in the 'worker' category as well.

Relevant calculations are based on the number of days or hours worked, and how someone is paid. Any additional arrangements made with the employer also need to be factored in. The underlying concept is that pay received on holiday should mirror what would have been earned at work.



Holiday entitlement starts to build up from the first day of work, and probationary periods, periods of sick leave, maternity, paternity or adoption leave also count towards it. A week's pay is due for each week of statutory holiday leave, and most workers are entitled to 5.6 weeks' paid holiday each year.

Where someone gets a regular monthly salary with non-varying hours and pay, no separate holiday pay calculation is needed. These staff simply get the usual monthly payment for any month which includes holiday.

Working out what constitutes a 'week's' pay for shift workers or people not working fixed hours is more complicated. Here calculations involve establishing average hours or average pay, looking back over the last 12 paid weeks of work. A 'week' usually means seven days running from Sunday to Saturday, but there can be exceptions to this. The 12-week period is known as the 'holiday pay reference' period. Note that from 6 April 2020, the holiday pay reference period increases from 12 weeks to 52 weeks.

Care is needed where there are workers on short contracts, or where temporary or agency workers are involved. If holiday entitlement has not been taken by the time such workers leave, they are due payment in lieu of untaken holiday. There is a holiday entitlement calculator for employers to use: **bit.ly/1picPiR**. Updated guidance regarding workers with irregular hours can be found here: **bit.ly/2JAEa6j**. This includes details of case law regarding holiday pay, and potential problem areas where EU and UK legislation interact.

Should you have any questions on holiday pay and payroll, we would be delighted to assist you.

Sources to consider when raising business finance

Raising funds for your business often proves to be a significant challenge for many firms. There are various options to consider, no matter whether you're looking to start a new business or require capital in order to expand.

Taking a look at loans

Loans are often the most conventional source of finance for firms. Bank loans can be taken out for a fixed term, with interest rates agreed in advance, meaning that they are straightforward when it comes to incorporating monthly repayments into a financial plan. Interest rates and repayment terms can more often than not be negotiated, although banks are increasingly asking for collateral as an extra form of security.

Entrepreneurs may be able to borrow money from friends and family, if they are willing to lend. In these circumstances, it is vital to draw up a legally binding arrangement and ensure that every aspect is formally agreed in advance. This could help to avoid any potential upset or bad feeling between the parties concerned.

Each loan you take out will appear on your credit file, and banks are becoming cautious about lending in the current economic climate. Before you apply, it is crucial to make sure that your business plan is watertight and that your reasons for borrowing are legitimate. Businesses perceived to be a high risk to the bank could be refused a loan.

We can provide a financial assessment of your business before you apply for a loan. Please contact us for more information.

Considering overdrafts

Overdrafts are credit facilities that contain a set amount of money, agreed between you and your bank. They often provide a flexible means for covering unforeseen expenses and short-term outgoings.

Limits must be agreed in advance, and interest is usually charged on any funds you receive from an overdraft facility. Arrangement or renewal fees may also be payable.

Those seeking to use an overdraft must be cautious: they are not designed to be used as a long-term source of finance, and continued use may cause your bank to question whether your business is struggling financially.

Grants and government support

Some businesses are eligible for a grant or other type of government support. Typically, grants are provided by local councils, the government and charities, and often prove to be an inexpensive form of financing. Grants and similar subsidies are usually non-repayable, and are therefore highly sought-after.

Government grants are generally only offered to firms operating in specific sectors, and to those working on specific projects. Businesses may be required to cover part of the cost of their project, or to match the funds granted to them.

Invoice discounting and debt factoring

Businesses seeking to raise finance may wish to consider invoice discounting and debt factoring. Invoice discounting provides a means of borrowing money against any unpaid invoices owed to the company. As the invoices are paid, the amount owed to the lender diminishes.

Meanwhile, factoring involves selling unpaid invoices to a third party and paying interest and/or a fee on them. The third party then collects the debt themselves.

We can advise on the most appropriate type of finance to suit your needs – please contact us for more information.

Reviewing your state pension

Earlier this year, a report suggested that half a million people could be paying 'unnecessary' tax on their state pension.

The issue arises where someone carries on working beyond state pension age. At 65, state pension age is now the same for women as for men. It rises to 66 in October 2020 and is expected to rise again after this. As a state pension is taxable, working whilst at the same time claiming a state pension can simply generate more taxable income – hand-in-hand with higher tax bills. With an increasing number of people working in later life, the issue is worth exploring.

Deferring state pension

You can defer your pension simply by doing nothing when the Department for Work and Pensions (DWP) writes to advise that you are close to state pension age. Doing nothing effectively defers your pension until you decide that it is the right time to start to receive payment. If you are currently receiving a pension but feel deferral would be a better option, you can change tack by contacting the DWP and asking to 'de-retire'. This puts the pension on hold. If you are economically active past state pension age and can afford to do without a state pension for the time being, the option to defer a state pension may be beneficial. However, the calculation can be complex.

The potential advantages of deferral are:

- keeping taxable income down now
- increased payments when you do claim – 'extra' state pension
- potentially paying a lower rate of tax, depending on your circumstances.

With the introduction of the 'new state pension', the rules have changed. Different provisions apply depending on whether you reached state pension age before 6 April 2016 or after this date. In terms of deferral, the option is more generous for those reaching state pension age before 6 April 2016. Here, a state pension increases every week of deferral, as long as you defer for at least five weeks. This equates to 10.4% for every 52 weeks. Qualifying under these rules also gives the option of receiving a one-off lump sum, rather than higher weekly payments.

If you reach state pension age on or after 6 April 2016, you have to defer for at least nine weeks to get increased weekly payments. The increase is just under 5.8% per 52 weeks. For instance, if you are eligible for the full new state pension at £168.60 per week and defer for 52 weeks, you would receive an additional £9.74 per week (at current rates). There is no lump sum option.

But there is a long payback period to recoup deferred income – ignoring tax. This means that any decision to defer is usually best taken in tandem with a consideration of overall health and wellbeing. If, for example, you reach state pension age before 6 April 2016, and you defer for one year, you only really start reaping benefits after nine to ten years drawing your pension. If eligible after 2016, you benefit after about 17 years. These payback periods are before tax. If you currently pay tax at 40%, but would pay at 20% when you receive a higher amount of state pension, the payback period is less than this.

There are other factors which might make taking the pension a better choice. Drawing your state pension, rather than deferring it, could mean you can postpone drawing on any other pension provision or investments you may have. For example, gains on assets and investment income on assets held within a pension fund will continue to contribute to the pension fund without an immediate tax charge.

Please do contact us for further advice in this area.

Are your finances protected from cyber-threats?

The government's 2019 Cyber Security Breaches Survey recently revealed that a significant number of UK firms fell victim to a cyber-attack or breach in the last 12 months. Here, we consider ways in which you can bolster your business's cyber security measures.

Mitigating the risks posed by cyber-attacks

It is crucial that businesses put measures into place in order to help mitigate the risks cyber-attacks pose. Whilst cyber-attackers have both the motivation and the capability to carry out debilitating attacks on firms, they also need an opportunity. Identifying any vulnerabilities in your business's systems and taking steps to strengthen them could help to dissuade attackers from targeting your firm.

Implementing effective security controls

A range of tools exist for businesses to utilise as part of their cyber security action plan. Boundary firewalls and internet gateways, such as web filtering, web proxy and content checking, help to establish network perimeter defences. Effective firewall policies help to detect and prevent harmful downloads; block access to malicious domains; and safeguard devices from communicating directly with the internet.

Firms should always ensure all software is kept up-to-date. Tech companies regularly release 'patches' within their software updates, which are designed to protect against known vulnerabilities.

Combating malware

Businesses are advised to make use of impenetrable malware protection. Common sources of malware include email attachments, downloads and the installation of unauthorised software. The best antivirus packages protect devices from viruses, spyware, ransomware and rogue botnet software.

Anti-malware defences should be utilised across your organisation, in order to detect and disable malware before it causes harm. In addition, businesses are encouraged to adopt the practice known as 'whitelisting': essentially, approving only software you know to be trustworthy.

Managing user privileges

Firms are advised to limit the number of 'privileged' staff accounts they create. Limiting the number of accounts that have special access privileges helps to protect against system misuse and unauthorised access. If individuals are given unnecessary system privileges, the consequences of misuse could be extremely damaging.

It is crucial that managers consider what level of access an employee requires in order to perform their job successfully. Businesses may wish to create stringent user security policies, and communicate these with their employees. Generating such policies may help to prevent serious cyber security breaches.

Creating a home and mobile working policy

Mobile and home working are becoming increasingly popular. However, working remotely brings with it some significant cyber security concerns. Businesses should establish risk-based policies that cover all types of mobile devices, alongside flexible working options.

There are many risks associated with mobile working, including the loss or theft of a device; the worker being observed when using a mobile device; potential loss of credentials; and a secure configuration becoming compromised. Risks can be managed by putting an effective mobile working security policy into place, and ensuring all employees adhere to it.

A sound mobile working security policy will determine how a mobile working device is acquired; the types of information that can be stored on mobile devices; and the process for granting employees permission to work offsite. The policy should also take into account any risks to the business's corporate network from mobile devices, and should outline how remote connections will be monitored.

My cyber security checklist

- ☑ Create a cyber security policy and incident management plan
- ☑ Train and inform my employees
- ☑ Install firewalls and anti-malware defences onto my computer and network
- ☑ Download the latest software for all my products
- ☑ Remove software I no longer use
- ☑ Manage and restrict user privileges
- ☑ Develop mobile working policies for employees who work remotely
- ☑ Continuously monitor all systems, networks and activity

Here, we have outlined just a handful of measures for business owners to consider implementing into their own firm. Taking appropriate action sooner rather than later will help to safeguard your business against cyber-attacks and cybercrime.

Business Round-up

HMRC introduces new system to tackle scam phone calls

HMRC has introduced a new system designed to prevent criminals from spoofing government helpline phone numbers.

According to HMRC, criminals often use 'official' helpline numbers to convince taxpayers to part with large sums of money. In 2018, HMRC received 104,774 reports of so-called 'phone scams' – a significant rise when compared to 2017's figure of 7,778.

The new system, which was developed in partnership with the telecommunications industry and regulator Ofcom, will help to prevent fraudsters from using official-looking phone numbers, and will thereby assist taxpayers in recognising genuine HMRC helpline numbers.

"This is a huge step forward in the fight against phone fraud"

Jesse Norman

Commenting on the issue, Jesse Norman, Financial Secretary to the Treasury, said: 'This is a huge step forward in the fight against phone fraud.

'Vigilance will always be important, but this is a significant blow to the phone cheats.'

The implementation of the new system is just one part of HMRC's plan to safeguard taxpayers from fraud. From June, individuals seeking to pay taxes over the phone will be required to enter their payment details using their phone's keypad, as opposed to giving them verbally.

OTS calls for review of PAYE system

In a new report, the Office of Tax Simplification (OTS) has called for the Pay as You Earn (PAYE) system to be reviewed, to ensure tax agents can 'see relevant client information' and 'access a number of key services'.

The report suggested that tax agents 'don't always have full access to their clients' PAYE records'. In addition, the current PAYE system 'does not handle the fluidity of the modern workplace very well', according to the OTS, especially in relation to changes of job mid-month, multiple jobs, concurrent employment and self-employment.

Commenting on the report, Bill Dodwell, Tax Director at the OTS, said: 'It is time for a new review of PAYE, to look at areas where the inputs from employers do not work well and how they are processed by HMRC to update tax codes and the new personal tax accounts. The review needs to update PAYE for modern working patterns.'

The report also proposes creating a 'PAYE-like experience' for the self-employed, in order to allow them to set money aside to pay future tax liabilities.

Web Watch

Essential sites for business owners.

www.huffingtonpost.co.uk/news/small-business-news-and-trends
Keeps individuals up-to-date with the latest business news and trends.

www.knowyourmoney.co.uk
A useful comparison website for businesses.

www.ukbusinessforums.co.uk
Provides handy tips and advice to business owners and entrepreneurs.

www.britishchambers.org.uk/page/business-brexit-checklist
Handy tool for firms to utilise ahead of the UK's departure from the EU.

Reminders for your diary

August 2019

2 Deadline for submitting P46(Car) for employees whose car/fuel benefits changed during the quarter to 5 July 2019.

7 Deadline to file first VAT return under MTD rules for the quarter ending 30 June 2019.

19 PAYE, Student loan and CIS deductions are due for the month to 5 August 2019.

September 2019

1 New Advisory Fuel Rates (AFR) for company car users apply from today.

7 Deadline to file first VAT return under MTD rules for the quarter ending 31 July 2019.

19 PAYE, Student loan and CIS deductions are due for the month to 5 September 2019.

30 End of CT61 quarterly period.

October 2019

1 Due date for payment of Corporation Tax for period ended 31 December 2018.

5 Deadline for notifying HMRC of new sources of taxable income or gains or liability to the High Income Child Benefit Charge for 2018/19 if no tax return has been issued.

7 Deadline to file first VAT return under MTD rules for the quarter ending 31 August 2019.

14 Due date for income tax for the CT61 quarter to 30 September 2019.

19 Tax and NICs due under a 2018/19 PAYE Settlement Agreement.

PAYE, Student loan and CIS deductions are due for the month to 5 October 2019.

PAYE quarterly payments are due for small employers for the pay periods 6 July 2019 to 5 October 2019.

31 Deadline for submitting 'paper' 2018/19 self assessment returns.