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CHARTERED ACCOUNTANTS

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Buzzacott's Professional Practices Group

Spring 2018 Newsletter

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ALL YOU NEED TO KNOW ABOUT MAXIMISING YOUR PENSION

The rules surrounding pension contributions have been repeatedly tweaked over the last few years. This has resulted in a system that offers greater flexibility for contributions and withdrawals but also adds a level of complexity. Taking all this into account, it is not surprising that many fail to maximise their annual pension allowance.

Since the start of the 2010/11 tax year, we have seen tighter restrictions on the amount you (or others) can contribute on an annual basis into your pension. This started with an allowance of £50,000 but by the start of the 2014/15 tax year it was reduced to £40,000, a level that is still in effect today albeit with a further restriction for certain tax payers as explained below.

...UNDERSTAND WHETHER YOU ARE IN A POSITION TO MAKE ADDITIONAL CONTRIBUTIONS DURING THE COURSE OF THE TAX YEAR...

The 2016/17 tax year saw the introduction of further restrictions on the amount that you can contribute as a high earner, known as the high-income restriction. This came in the form of a tapering to the annual

allowance for individuals with taxable "adjusted" income exceeding £150,000. The definition of income for this assessment is not limited to earnings from employment/self-employment. Much like the way the tax-free annual personal allowance is reduced by £1 for every £2 you earn over £100,000, the annual pension allowance is also reduced by £1 for every £2 of income over £150,000, up to a maximum reduction of £30,000, thus reducing the maximum annual allowance to £10,000.

...WE HAVE SEEN TIGHTER RESTRICTIONS ON THE AMOUNT YOU (OR OTHERS) CAN CONTRIBUTE ON AN ANNUAL BASIS INTO YOUR PENSION.

Those with income consistently above £210,000 will be limited to a maximum pension contribution of £10,000 per tax year. If the annual allowance is exceeded, you may be subject to an annual allowance charge that effectively removes the tax benefits on the excess. In some cases, and depending on the level of income, it may be possible to reduce the level of your adjusted income through planning and then tapering may not apply.

The current rules enable you to carry forward any unused pension contribution allowances for a maximum of three tax years if you were a member of a pension scheme during the relevant years. The high-income restriction has now been in effect for two tax years, leaving one year (the 2015/16 tax year) where unused allowances may remain. This is further complicated by the fact that the 2015/16 tax year was one in which a Summer Budget resulted in changes to pension allowances with effect from the day of the Budget. As such, you would need to consider carefully the contributions made to your pensions in that year in order to assess available allowances.

It is therefore important that you review your historic pension contributions now to understand whether you are in a position to make additional contributions during the course of the tax year, in order to utilise any unused allowances from earlier years before they are lost.

A payment of £800 into a personal pension scheme by an individual can benefit from basic rate tax relief at source. Further tax relief can be claimed through your Self-Assessment Tax Return so, as an additional rate taxpayer, this means a contribution of £1,000 has an effective cost to you of £550.

While the high-income tapering rules only affect those with income exceeding £150,000, the ability to carry forward unused pension allowances is available to most people who are part of a registered pension scheme.

The information in this article does not constitute financial advice and is general in nature. If you would like specific advice tailored to your circumstances, please contact us.

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WHAT CAN LAW FIRMS DO TO MAKE THEMSELVES MORE ACCOUNTS RULES COMPLIANT?

With most law firms' new financial year starting in April or May, we've put together some handy housekeeping tips which will help make your firm more Accounts Rules compliant.

1. Ask yourself whether the payment you're about to make from the firm's Client Account is part of the underlying transaction for which you are engaged. If it isn't clear, question why the payment shouldn't be made by the client personally and whether the firm is unwittingly providing a banking facility. (SRA Rule 14.5)

2. If you're a partner signing off the monthly bank reconciliations, make sure you understand how the reconciliation works. There should be three elements to it:
(a) compare the bank statements against the balance recorded in your accounting records;
(b) where they are not the same, question why that is and whether,

for example, a receipt has gone unrecorded; (c) compare the reconciled balance against the total client ledger balance. (SRA Rule 29.12)

3. Routinely review the client matter listing to check for any overdrawn or residual balances and investigate them straight away. (SRA Rules 20.9 and 20.2).

These are still the most commonly found breaches and a Rule 14.5 breach would almost certainly be reportable.

WHAT FINANCIAL MATTERS DO YOU NEED TO CONSIDER WHEN SETTING UP A NEW BUSINESS?

Ever since Brexit threatened to pull the shutters down on non-UK business owners working in this country, we have seen a steady rise in entrepreneurs – and not necessarily just Europeans but also North and South Americans – wanting to set up companies in the UK before March 2019. Here are some of the financial matters to be considered when setting up a new business.

- Decide whether you want to be employed or self-employed. If the former, then a Limited Company is probably best. If the latter, choose an LLP or simple partnership.
- If this means you're moving from employment to self-employment, or vice versa, you will need to notify HMRC. We can help you do this.
- For a Limited Company or LLP, Companies House will require a registered office address. If you haven't yet arranged offices to work from and you don't want your home address appearing on the public record, consider using a service address. Our Company Secretarial Team provides registered office facilities to hundreds of companies.
- Open a business bank account as quickly as possible. It can take weeks and sometimes months to open a bank account in the UK, particularly if you're not already resident.
- Consider whether you need insurance; key man, professional indemnity or any other type.
- Consider registering for VAT early on. The business might not meet the minimum threshold for VAT registration but without it you can't reclaim VAT on expenditure.
- If you're going to employ staff or be an employee yourself (e.g. a director of a Limited Company, earning a salary) you will need to register for PAYE.
- Read up on auto-enrolment for pensions. You may have a responsibility to enrol staff.
- It's never too early to get a handle on bookkeeping. Even if you choose to do the bookkeeping yourself, keep good records from the start.

We can help with all these matters so please contact us if you would like to discuss anything.

ARCHITECTS: SMOOTHING OUT THE CASH FLOW ROLLERCOASTER

Cash flow planning is key to the success of all businesses. While a business may appear to be profitable on paper, cash flow can be a serious challenge for professional services firms. This is even more important in the growth phase of a business. Investment in growth needs to be planned around the day-to-day working capital requirements to avoid running into a liquidity meltdown.

Based on our experience of working with architects, we know that cash flow is even more of a challenge compared to many other businesses. The long-term nature of projects makes this a particular struggle as cash becomes tied up in 'work in progress'. So, how can you anticipate your cash flow needs?

Regular forecasting – Forecasts should be updated regularly based on discussions with the project leads to account for new information e.g. new projects won, any projects that go on hold, increases to expected costs etc. The forecast can be manipulated with different assumptions to present a best and worst case picture. One of our clients has always maintained three forecasts in readiness for any eventuality: a realistic forecast, an aspirational one and an Armageddon one!

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Planning ahead – for known cash flow crunch points; for example VAT, tax and staff bonuses, ensure cash reserves are topped up and that there is an emergency access point such as an overdraft facility.

Up-to-date accounting information – if the bookkeeping records are kept up-to-date it is easier to analyse the current cash position, profitability of the firm and compare actual vs. budget on a real-time basis. As we all know, profit doesn't always equal cash.

Accurate time recording – the majority of practices now use bespoke project software which aids the recording of time and reimbursable expenses on a project by project basis. Encourage all staff to record their time as accurately as possible and on a timely basis. This will allow you to track whether projects are on budget and agree any additional fees upfront.

Billing upfront – try to request an initial payment prior to starting a project. Carefully plan and schedule billing dates for the remainder of the project. Also, ensure your credit terms are in sync with the credit terms set by your suppliers to avoid a negative cash flow build up over time.

Strong credit control – review 'debtor days' on a regular basis to determine how long your clients are taking to pay you. You should strive for fewer than 60 days. Anything greater than 90 days is cause for concern. Any potential bad debts should be chased swiftly before they become irrecoverable.

If you would like any support or assistance in preparing cash flow forecasts, management accounts or reviewing your financial data please get in touch.

Related news

IAIN BUTLER JOINS BUZZACOTT AS R&D TAX CREDITS DIRECTOR

We are delighted to announce the appointment of Iain Butler as R&D Tax Credits Director in our Corporate and Business Services team.

Iain brings with him over 10 years' specialist experience in helping businesses successfully claim R&D tax credits.

Joining Buzzacott from a Big 4 firm, Iain was previously responsible for building and growing the Innovations Relief and Incentives team covering the southern region. Small and multinational businesses have benefited from his expertise in not only claiming R&D tax credits, but also in understanding the complex R&D tax credit scheme and its scope within the realms of their specific business operations. Iain also oversaw innovation incentives such as patent box and creative sector reliefs and has previously worked within the aerospace and media sectors.

His extensive experience of negotiating complex claims with HMRC and due diligence in reviewing R&D claims will help Buzzacott's clients better understand how to overcome the challenges of claiming successful R&D credits and, of course, best practice.

Get in contact

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About us

Buzzacott's Professional Practices team are specialists with years of experience in working with small to mid-tier businesses, advising partners in firms of solicitors, patent attorneys, architects, chartered surveyors, chartered accountants and other sectors.

We know what it takes to start a practice and make it grow. We understand the business and tax needs and the burden of compliance. And we can inform the difficult decisions that come with change: when and how to finance, strategies for tax, the pros and cons of LTD/LLP conversion, succession planning – and the crucial task of managing growth in good times and preserving stability in bad.

We build long and close working relationships with our clients, who come to us for our understanding of the issues professional practices face but stay with us because our empathy with their business brings savings in time and risk.