Corporate Newsletter

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SUMMER 2016 EDITION

With the summer holidays approaching, escaping it all may seem tempting with the number of recent regulatory changes which impact businesses of all sizes, let alone the uncertainties around "Brexit" and other world events. We hope our newsletter will help alleviate concerns where we can and answer some of your questions but of course should anything in this edition raise further queries, please speak with your usual Rawlinson & Hunter contact.

The overhaul of UK accounting standards has been in discussion for several years, however now is the time we are seeing the impact of this change on businesses and their accounts. Our helpful summary will guide you through some of the significant changes dependent on your business size.

Another key area which has been in recent press is increased transparency in corporate structures and the introduction of the register of "People with Significant Control" is part of this process. Our article expands on what this really means for corporate entities and their owners.

The newsletter also includes a summary of some of the significant corporate tax changes following the Budget 2016, recent VAT and Customs updates and clarification on recent payroll changes.

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RAWLINSON & HUNTER

1 Change is afoot with new accounting standards

The whole accounting framework in the UK has recently changed and this article highlights the impact on businesses of different sizes.

Non-small, unlisted entities

Many non-small, unlisted entities will now have adopted either Financial Reporting Standard ("FRS") 101 'The Reduced Disclosure Framework' or FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', which were effective for accounting periods beginning on or after 1 January 2015.

FRS 101, which follows the accounting treatments required under International Financial Reporting Standards ("IFRSs") but with reduced disclosures, is typically being adopted for the standalone financial statements of companies that have a parent undertaking preparing consolidated financial statements in accordance with full IFRS. FRS 101 may not be adopted for consolidated financial statements.

FRS 102, which is somewhat of an amalgamation of IFRS and previous UK GAAP, is typically being adopted by all other UK, non-small, unlisted entities.

As expected, some of the most significant issues arising from adoption of FRS 101 and 102 by large and medium sized, private entities have been:

1. The requirement to adjust non-current assets and liabilities, which do not incur market rates of interest, to their fair values, i.e. to recognise the gain or loss arising from the non-market rate of interest over the term of the asset or liability by discounting future cash flows using a market rate of interest.

   This has particularly affected:

   1) loans from or to related parties which are often provided for a number of years at no or low rates of interest; and

   2) rent deposits, also held for a number of years but which often do not accrue interest.

2. The tax effects arising from accounting changes under FRS 101 or 102.

3. The increased level of disclosures required in an entity's financial statements, in particular in its accounting policies.

Small entities

Small entities (broadly those satisfying two out of three of (i) annual turnover less than £10.2 million, (ii) gross assets less than £5.1 million and (iii) average monthly employees less than 50) will be able to continue using the old UK GAAP standard applicable to small entities (the Financial Reporting Standard for Smaller Entities ("FRSSE")) for another year.

Thereafter, for accounting periods beginning on or after 1 January 2016, the FRSSE has been withdrawn and small entities may either adopt FRS 102 in full or Section 1A of FRS 102 ("Section 1A"). Section 1A sets out reduced presentation and disclosure requirements for small entities. The recognition and measurement requirements of FRS 102 continue to apply to entities applying Section 1A.

The main disclosure exemptions in Section 1A are:

- There is no requirement to prepare a statement of cash flows.
- A disclosure exemption for related party transactions with and between wholly-owned subsidiaries.
- Reduced disclosures in relation to financial instruments.

Micro-entities

Micro entities (broadly those satisfying two out of three of (i) annual turnover less than £632,000, (ii) gross assets less than £316,000 and (iii) average monthly employees less than 10) have been able since 2014 to take advantage of further simplification of accounting treatments and disclosure requirements under the FRSSE.

The main features of the micro-entities regime are:

- A simplified balance sheet and profit and loss account format.
- No directors' report.

- No notes to the accounts are required and instead 'minimum accounting items' (consisting of details of advances, credit or guarantees provided to directors and contingent liabilities and capital commitments) should be provided at the foot of the balance sheet.
- Where further voluntary information is disclosed in addition to the minimum accounting items, the entity must follow the disclosure requirements of the relevant accounting standard.
- Accounting is on a historical cost basis, i.e. no revaluations or subsequent measurements at fair value are permitted.
- Accounts prepared in accordance with the regime are presumed to give a true and fair view.
- Only the balance sheet and disclosures at the foot of the balance sheet need be filed at Companies House.

For accounting periods beginning on or after 1 January 2016, following the withdrawal of the FRSSE, micro-entities may adopt FRS 105 'The Financial Reporting Standard applicable to the Micro-entities Regime'.

Whilst FRS 105 is based on FRS 102, it has been adapted significantly to accommodate the features of the micro-entities regime detailed above. In addition there are further simplifications to reflect the small size and simple nature of micro entities including no accounting policy options and no accounting for deferred tax or equity settled share based payments.

Accordingly, the recognition and measurement requirements of FRS 105 are broadly in line with those of the FRSSE, with the most notable difference being the prohibition on accounting for deferred tax.

A key consideration for entities considering adoption of the micro-entities regime will be the lack of information presented in the accounts, which may be considered insufficient should the accounts be required by banks, when considering overdraft or loan facilities, or by suppliers and other interested parties. Additionally much of the more detailed information would still need to be prepared for the corporate tax return reporting process and the underlying basic accounting (accruals, prepayments and revenue recognition) will still need to be undertaken.

Application of FRS 101, FRS 102, Section 1A and FRS 105

Application of all the new UK GAAP standards is retrospective meaning that, subject to various transitional exemptions, an entity will need to restate the previous year's balance sheet and profit and loss account using the accounting standard being adopted and prepare an opening balance sheet as at the date of transition (i.e. the beginning of that earlier period). Disclosures to explain the transition will be required in the entity's first set of "new UK GAAP" financial statements.

2 No hiding behind glasses - increased corporate transparency

From 6 April 2016, all UK companies and Limited Liability Partnerships ("LLPs") are required to start maintaining a register of the people who have significant control ("PSC Register") over that company or LLP. This requirement arises as part of a series of measures by the government aimed at increasing transparency about who ultimately controls UK companies and LLPs.

Furthermore, from 30 June 2016, companies and LLPs will need to report people and entities included in their PSC Register to Companies House in a new Annual Confirmation Statement (which replaces the current Annual Return) and in the information to be sent to Companies House upon incorporation.

Where a company or LLP does not have any PSCs or is still identifying its PSCs, this fact will also need to be reported to Companies House, with any changes communicated as they arise.

The information to be maintained in a PSC Register and reported to Companies House is summarised below, together with details of any information that will not be made available to the public.

A PSC is an individual who meets one or more of the following conditions:

1. The individual holds, directly or indirectly (e.g. through a corporate chain), more than 25% of

the shares of a company or the right to more than 25% of the surplus assets on wind-up of an LLP.

2. The individual holds, directly or indirectly, more than 25% of the voting rights of a company or LLP.

3. The individual holds the right, directly or indirectly, to appoint or remove a majority of the board of directors of a company or those entitled to take part in the management of an LLP.

4. The individual has the right to exercise, or actually exercises, significant influence or control over the company or LLP.

5. A trust or partnership or another entity that is not a legal person meets (or would if it were an individual) one or more of the conditions 1 to 4 above and the individual has the right to exercise, or actually exercises, significant influence or control over the activities of that trust, partnership or other entity.

The government has published guidance on what constitutes significant influence or control for the purpose of the fourth and fifth conditions. In summary:

- Control means having the right to direct the policies or activities of a company or LLP.

- Significant influence means being able to ensure that a company or LLP adopts the policies or activities which the individual decides.

Some examples of significant influence or control are provided below:

1. An individual who, without reference to or collaboration with anyone else, has the right to make or veto a decision relating to the running of the business of the company or LLP, e.g. adopting or amending the business plan.

   But veto rights that are designed to protect an individual's minority interest in the company or LLP (e.g. by preventing the company's articles or the LLP's partnership agreement being amended or further shares being issued without the individual's consent) will not usually be treated as conferring significant influence or control.

2. A director or member who owns important assets used by the company or LLP or who has key relationships which are important to the running of the company's or LLP's business.

3. An individual who is not a director or member but who is regularly consulted on board or management decisions and whose views influence decisions made by the board or management.

4. An individual whose recommendations are always or almost always followed by shareholders who hold the majority of the voting rights or the members, such as an influential founder or family head.

But professional advisers, suppliers, customers, directors and employees who simply perform their customary role will not normally be treated as exercising significant influence or control.

Although the general principle is that every UK company and LLP should maintain a register of PSCs, there is effectively an exemption for a UK subsidiary company or LLP ("Subsidiary") which has a parent undertaking ("Parent") that:

1. would have been a PSC were it an individual; and

2. is subject to the PSC regime or similar obligations. This in practice really only includes other UK companies / LLPs or certain foreign listed companies (i.e. companies that have their shares admitted to trading on a regulated market in the European Economic Area or specified markets in the USA, Switzerland, Japan and Israel).

In this situation, Subsidiary may disclose on its PSC Register the name of Parent, called a Relevant Legal Entity ("RLE"), instead of the PSCs of the Parent.

The information to be included in the PSC Register includes the following:

Individual	Relevant Legal Entity (RLE)
• Name • Service address • Country or state of usual residence • Nationality • Date of birth (although the day of the date of birth will not be accessible by the public) • Usual residential address (although this will not be accessible by the public) • If any of the individual's details are protected from disclosure to the public, that fact	• Corporate or firm name • Registered or principal office • Legal form of the entity and law by which it is governed • Register of companies in which it is entered • Registration number

Both:
• Details of the date on which the individual / RLE became registrable and the nature of their control • Which one of the conditions they meet • The level of their interest by reference to specified bands, i.e. more than 25% up to 50%; more than 50% up to 75% ; or 75% or more • Certain other information to show what the company or LLP knows or does not know about its PSCs (e.g. if it believes that it has further PSCs but it has not yet been able to identify them and/or confirm their details)

Before a company or LLP can include the above details in its PSC Register, it must confirm the details with the relevant individual or RLE. Particulars may be treated as confirmed if they have been provided or confirmed to the company or LLP by the individual or with the individual's knowledge.

As mentioned above, a company's or LLP's PSC Register will be publicly available from Companies House (except that the day of the date of birth and the residential address will be withheld). In addition, a company or LLP must provide a copy of the register (subject to the same withheld information) to a member of public upon request but may charge a small fee.

Companies or LLPs that do not comply with the PSC Register regime will be subject to criminal sanctions. In addition, a company or LLP may impose voting, transfer or other restrictions on a PSC who fails to comply with the company's or LLP's request for information.

3 A quick dip !

The following is an overview of some of the more significant changes to corporate taxation announced over the last few months:

- *Corporation tax rate* - this will be cut to 17% from 1 April 2020 rather than 18% as had previously been announced. The corporation tax rate fell to 20% for all companies from 1 April 2015.

- *Payment dates for large companies* - the proposed new system for corporate groups with profits of more than £20 million which requires corporation tax payments on account to be made in the third, sixth, ninth and twelfth months of their accounting period has been deferred (from the originally planned date 1 April 2017). This new system will now apply for accounting periods starting on or after 1 April 2019.

- *Loss relief for companies* - from 1 April 2017 the following changes will apply:

  1. Companies will be able to offset losses brought forward from earlier accounting periods against profits from other income streams. Currently these can only be offset against profits from the same income stream.

  2. Corporate groups with profits exceeding £5 million will only be able to offset brought forward losses against 50% of the group profits.

- *Tax relief for interest payments* - the current worldwide debt cap rules which restrict the amount of interest deductible against corporate profits will be abolished from 1 April 2017. Instead, large companies within the new rules will only be able to deduct interest equal to 30% of the group's UK Earnings Before Interest, Taxes, Depreciation and Amortisation ("EBITDA"). However, groups with UK interest payments of less than £2 million will not be affected by the new rules.

- *Capital allowances for business cars* - the 100% first year allowance ("FYA") available to businesses purchasing low emission cars was due to cease on 31 March 2018, but is now being extended for a further three years to April 2021. However, from 1 April 2018 the carbon dioxide ("CO2") emission threshold below which cars are eligible for the FYA will be reduced from 75g/Km to 50g/Km. At the same time, the CO2 threshold for the main rate of capital allowances for business cars will be reduced from 130g/Km to 110g/Km.

- *Increase in the tax rate for loans to participators* - where a close company (broadly one controlled by five or fewer persons) makes a loan to a participator (broadly a shareholder), and that loan remains outstanding for more than 9 months after the end of the accounting period in which the loan is made, the company is required to pay a tax charge to HMRC. This tax charge is not repayable until 9 months after the end of the accounting period in which the loan is repaid or written off.

Up to 5 April 2016 the charge was 25% of the loan outstanding, but as a result of the increase in the income tax rate applying to dividends, the rate from 6 April 2016 is 32.5%. For accounting periods which straddle 6 April 2016 different rates will apply to separate loans made before and on or after 6 April 2016.

4 Steering a course through recent Entrepreneurs' Relief changes

Since Entrepreneurs' Relief ("ER") was introduced in April 2008 the qualifying amount has increased significantly. It is now a very valuable relief with a lifetime limit of £10 million. However, changes announced in 2015 introduced unwelcome restrictions on the types of disposal qualifying for ER, one of the most significant being the loss of ER on incorporation in most circumstances.

Fortunately further changes announced in the March 2016 Budget have been backdated to reverse some (but not all) of the 2015 restrictions, particularly in relation to family companies. At the same time, an extension of the benefits of ER for long-term investors was announced (a new "Investors' Relief").

Reversal of 2015 Restrictions

The changes announced in 2015 were intended to restrict ER where HMRC considered there were artificial structures, or there was no real withdrawal from the business, and in particular:

1. On the disposal of goodwill to a company on incorporation;
2. In relation to certain joint venture structures; and
3. In relation to associated disposals of assets.

The 2015 changes took effect from 3 December 2014, and the partial reversals contained in Budget 2016 are also effective from that date.

These are considered in more detail below.

Disposal of Goodwill

The changes made in 2015 introduced related party provisions which removed goodwill from the class of assets qualifying for ER where the person made a disposal of goodwill to a close company (broadly one controlled by five or fewer persons) which the individual was connected to (typically because they were a shareholder).

These related party provisions meant that ER was no longer available on a disposal of goodwill as part of a typical incorporation of a sole trader or partnership business. The intention was to prevent individuals incorporating and obtaining the benefit of the growth in value of their business at a cost of only 10% tax.

ER was still available if the individual was genuinely retiring from the business, but the changes created unwelcome tax charges for family businesses seeking to incorporate and pass on the business to the next generation.

The changes announced in March 2016 amend the related party provisions so that they only apply where the person making the disposal, together with anyone connected to them, owns 5% or more of the shares or votes of the acquiring company. For these purposes a connected person includes:

- A company connected to the individual; and
- Trustees connected to that individual.

Family members are now excluded from the definition of connected person for these purposes. This means that family businesses can be passed down to the next generation with the benefit of ER where the founder retains a small stake (less than 5% of the shares and votes) in the business going forward.

Joint Venture Structures

Prior to the 2015 changes it was possible to structure a business or company to enable certain individuals to obtain ER in circumstances where they would not otherwise have been entitled to the relief (for example because their shareholding was less than the minimum 5% required to obtain ER).

Typically the structure made use of the joint venture provisions to "look through" a corporate entity, broadly that a proportion of the trade carried on by the underlying business was treated as being carried on by the corporate entity. This meant that by virtue of its shareholding in another company or its interest in a partnership the corporate entity would qualify as a trading company for ER purposes.

As a result of the 2015 changes the corporate entity's interest in a partnership was disregarded, and the definition of trading company was amended so that the corporate entity was no longer treated as a trading company by virtue of its interest in another business. This meant its shares no longer qualified for ER unless it was a trading company in its own right.

However, these changes had an unintended impact on genuine commercial transactions. As a result, the March 2016 changes introduced new provisions to allow shareholders to qualify for ER in genuine commercial transactions whilst still seeking to deny relief for "contrived" structures.

Unfortunately the new provisions do not simply reverse the previous changes, but seek to prevent further perceived abuse. Inevitably this has led to greater complication in determining whether a particular structure qualifies for ER. It is hoped that HMRC will issue guidance to assist with working out how the changes will apply in practice.

Associated Disposals

Where a business owner holds business assets outside the partnership or limited company that carries on their business (for example the business premises from which the business operates), it is possible to claim ER on a disposal of those assets provided it meets certain conditions to be treated as an "associated disposal".

The changes made in 2015 meant that to qualify for ER, an associated disposal would have to be accompanied by a "material disposal" of at least 5% of the business owner's interest in the business.

In addition, where there was no "meaningful withdrawal" from the business and arrangements were in place to potentially allow the individual to retain the assets in the future (for example through someone connected to them such as a family member), ER was denied.

These changes to the provisions meant that it was no longer possible to dispose of assets to family members, and hence restricted the options for succession planning for family businesses.

To address this, changes have been made to allow ER to be claimed on an associated disposal of a privately-held business asset to a family member when the individual retires or reduces their participation in the business.

In addition, ER will not be denied where it is clear that the disposal is part of pre-planned family succession planning, which pre-dates the material disposal and the associated disposal.

Families will therefore need to carefully document future plans to pass on the business in order to safeguard the availability of ER on future disposals of business interests and privately held assets used in the business.

New Relief For Long Term Investors

The March 2016 Budget included a welcome announcement that the benefits of ER would be extended to encourage long term investment in unlisted trading companies by introducing a so-called "Investors' Relief".

Provided certain requirements are met, individuals who acquire newly issued ordinary shares in an unlisted trading company on or after 17 March 2016, and who hold them for at least three years, will be entitled to claim investors' relief on a disposal of the shares. This means they will pay CGT at 10% on any gain, subject to a lifetime limit of £10 million.

Since the new rules are designed to attract new capital into companies, anti-avoidance rules have also been introduced to ensure that shares are subscribed for by individuals for genuine commercial reasons, and not for tax avoidance purposes.

5 Extra helpings

In an unexpected move, it was announced that the main rates of capital gains tax ("CGT") are cut from 28% to 20% for higher rate taxpayers and from

18% to 10% for basic rate taxpayers from 6 April 2016.

However, the existing 28% and 18% rates will still apply to disposals of residential property and gains made by Private Equity fund managers (known as "carried interests").

6 Jetting off into the new Customs regime

New Union Customs Code ("UCC") rules were implemented on 3 May 2016 to modernise and standardise customs procedures throughout the European Union.

The aims of the UCC is to facilitate legitimate trade, introduce a paperless environment for customs procedures and to harmonise customs controls throughout the EU.

Any business involved with the international trade of goods will be affected by the new rules in some way. However, there will be a major impact on businesses that currently have a Temporary Admissions Approval to facilitate the import of goods.

It is now compulsory for businesses using the Temporary Admissions facility to place a guarantee with HMRC. The guarantee covers the potential import VAT payable which will have been suspended under the Temporary Admissions regime.

Prior to 3 May 2016, businesses importing high value goods into the UK under the Temporary Admissions regime were able to apply to HMRC for a guarantee waiver. Such a waiver is of significant benefit to a business importing high value goods as a guarantee to cover the suspended import VAT and duty can attract significant fees charged by the financial institution that provides the guarantee. The criteria HMRC applied to allow a business to receive a guarantee waiver was that the business had to be solvent and have a good compliance history with HMRC.

From 3 May 2016 businesses will still be able to obtain a guarantee waiver, however, there are now stricter criteria to be met. To obtain a guarantee waiver, a business now has the same bar as set for businesses who are, or wish to become, registered as an Authorised Economic Operator ("AEO").

An AEO is an internationally recognised quality mark which indicates that a business operates within a secure supply chain and its internal controls and procedures are efficient and compliant. Therefore an internationally recognised business that is an AEO will be seen as 'low risk' and, generally, will see its goods being imported/exported with efficiency and minimal (if any) physical inspection by the customs authorities.

The criteria set for businesses to become AEOs include:

- record of compliance with HMRC procedures;
- satisfactory system of managing commercial and transport records;
- proven solvency; and
- the meeting of certain security and safety standards.

As from 3 May 2016, the criteria to become a AEO will include personnel within the business meeting practical standards of competence or professional qualifications. The business also needs to have a history of compliance not only with customs procedures but also in all other areas of taxation.

A business that uses a facility of an agent to deal with its customs procedures is unlikely to see any significant change in its procedures. However, those businesses, despite using an agent, that currently operate within the Temporary Admission regime are likely to see a significant change in their operations if they currently hold a Temporary Admissions Approval with a guarantee waiver.

Any business that currently operates a Temporary Admissions Approval with a guarantee waiver will not see an immediate change in procedures, although, once the current Temporary Admissions Approval comes up for renewal, HMRC will apply the new criteria. Therefore, it is recommended that businesses that are likely to be in a position to renew their Temporary Admissions Approval within the next six months should seek advice and assistance in applying for a renewal of their Temporary Admissions Approval.

7 It's no picnic doing partial exemption

Where a UK business provides both taxable and exempt supplies for VAT purposes, input VAT which cannot be directly attributed to the taxable or exempt part of the business (and therefore fully recoverable or not recoverable) is restricted to the proportion relating to taxable supplies using a partial exemption calculation.

Financial services, which ordinarily would be treated as VAT exempt where supplies are in the UK/EU, are considered taxable for the purposes of input deduction when supplied to customers outside the EU. Previously, businesses with foreign branches could recover VAT on branch overhead costs based on supplies made by those branches.

Following Le Credit Lyonnais case, HMRC have changed the regulations with effect from 1 January 2016 in respect of partly exempt businesses with establishments outside the UK to ensure UK law is aligned with EU law.

The changes largely impact financial institutions such as banks and insurers which are partly exempt for VAT purposes. For such businesses the value of supplies from foreign branches and establishments should be excluded when calculating input VAT recovery in the member state of principal establishment. A partial exemption method based on sectors can no longer be based on geographical location.

HMRC argue this will simplify calculations for businesses and reduce the risk of manipulation on VAT recovery.

For some businesses it is thought this change could even improve VAT recovery rates that operate through foreign branches.

Further details can be found in the HMRC Brief 22/15.

Where there is a UK VAT group with an overseas establishment as part of that group, revised interpretation of a Swedish VAT case ("Skandia") by HMRC considers that overseas establishments are a separate taxable person (assuming the establishment is in a member state that operates "establishment only" grouping similar to those in Sweden). This would mean intra group transactions would not be ignored for VAT purposes, and instead a reverse charge calculation would be required.

8 Abolition of dispensations is no plain sailing

With effect from 6 April 2016, in the majority of situations, employers no longer need to have a dispensation in place to remove the requirement to report genuine expenses incurred in a business activity on Forms P11D. The change is as a result of a review carried out by the Office of Tax Simplification. Whilst this puts a greater onus on the employer to ensure that any non-business expenses are reported on the P11D, it is generally welcomed, as it reduces the administrative burden on employers when completing P11Ds.

However, there is an exception to this removal of the dispensation in the situation where an employer pays round sum allowances for subsistence, rather than meeting the actual cost incurred by the employee. If the amount being paid is in accordance with HMRC's benchmark rates for allowable expenses (see below), then no further action is required. However, if the employer is paying a special ("bespoke") rate, they need to apply to HMRC to use the bespoke rates to ensure the payment can be treated as non-taxable. Any agreements that were reached prior to 6 April 2011 are no longer deemed agreed by HMRC, as there is a five year limit for any such agreements to be in place. Many employers overlook this situation where a previous agreement was in place.

To apply for a "round sum allowance" dispensation, the "Bespoke scale rate application form" has to be completed which can be located on HMRC's website. If there is no agreement in place, or the agreement in place was reached more than five years ago, part of the form requires the employer to verify that the bespoke rate amounts being requested are in line with the actual expenses being incurred and that the employer has carried out a sampling exercise to confirm the level of expenses. In addition, a checking process needs to be in place to ensure that the payments/reimbursements are only being made where the employee has incurred the underlying cost.

The benchmark rates referred to below and permitted by HMRC are as follows;

Absence from normal place of work	Maximum amount of meal allowance
5 hours	£5
10 hours	£10
15 hours	£25

In addition, where a meal allowance of £5 or £10 is paid, and the qualifying journey in respect of which it is paid lasts beyond 8 pm, a supplementary rate of £10 can be paid.

Hence, if round sum amounts are being paid which are not in accordance with the benchmark rates above, an employer will need to either apply for the rates to be approved, or, change the method of reimbursing employees to the actual cost of their subsistence. If neither of these actions are undertaken, the amount will be taxable on the employee.

9 Thrown a curveball on the employment allowance removal?

With effect from 5 April 2016, two changes came into effect in respect of the annual Employment Allowance

Where an employer is eligible to receive the annual allowance, the amount increased from £2,000 to £3,000 per annum.

Most employers are entitled to the Employment Allowance. The significant exceptions to this are:

1. Domestic employers (for example a nanny)
2. Service companies where there are IR35 deemed payments
3. Being part of a group, where only one member of the group can claim the allowance
4. Being a public body, or doing more than half your work in the public sector (for example local councils or the NHS)
5. Being the sole director of a company and being the only paid employee in the company

This latter point is the second change that has been made with effect from 6 April 2016. However, if the company were to employ someone else, so long as both are earning above the employer's NI threshold, the Employment Allowance is available. Hence it is permissible to employ a spouse or other family member, on a salary of £8,112 or above, and then claim the Employment Allowance. This assumes that the additional employee is carrying out some work for the company to entitle them to receive a salary.

10 The sky's the limit

Audit thresholds have increased significantly potentially reducing costs and regulation for smaller entities.

For accounting periods beginning on or after 1 January 2016, the thresholds above which an eligible, standalone company will require a statutory audit have increased such that an audit will not be required as long as the company has satisfied two out of three of the following criteria for two consecutive financial years:

Criteria	Accounting periods beginning before 1 January 2016	Accounting periods beginning on or after 1 January 2016
Turnover less than or equal to	£6.5 million	£10.2 million
Balance sheet total (i.e. gross assets) less than or equal to	£3.26 million	£5.1 million
Employees less than or equal to	50	50

** When a company is a member of an eligible (see below) group, broadly speaking an audit will not be required as long as, in aggregate, the worldwide group that the company belongs to satisfies two out of three of the above criteria for two consecutive financial years.*

A company is ineligible for small company and audit exemptions if it is, or was at any time during the financial year, one of the following:

- a public company
- a member of an ineligible group (see below)
- an authorised insurance company, a banking company, an e-money issuer, a MiFID (i.e. Markets in Financial Instruments Directive) investment firm or a UCITS (i.e. Undertakings for Collective Investment in Transferable Securities) management company or carried on insurance market activity

A group is ineligible if any of its members is:

- a public company
- a body corporate (other than a company) whose shares are admitted to trading on a regulated market in an EEA State
- a person (other than a small company) who has permission under Part IV of the Financial Services and Markets Act 2000 to carry on a regulated activity
- a small company that is an authorised insurance company, a banking company, an e-money issuer, a MiFID investment firm or a UCITS management company
- a person who carries on insurance market activity

The above change brings the audit thresholds in line with the small company thresholds which have been in force for accounting periods beginning on or after 1 January 2015.

It should be noted that many companies that satisfy the above criteria may still wish to consider obtaining a voluntary audit of their financial statements as this will often be a requirement when seeking equity investment or loan finance. An audit will also help to maintain or improve a company's credit score which is often referred to by potential suppliers.

What to do next...

If you are interested in any of these issues and wish to discuss them in more detail, please call the Rawlinson & Hunter partner who normally acts for you. If you are not one of our regular clients but would like more information or advice, a full list of partners is provided on this page and any of them will be delighted to help you.

Rawlinson & Hunter

Eighth Floor
6 New Street Square
New Fetter Lane
London EC4A 3AQ

And at

Q3, The Square
Randalls Way
Leatherhead
Surrey KT22 7TW

T +44 (0)20 7842 2000
F +44 (0)20 7842 2080
firstname.lastname@rawlinson-hunter.com
www.rawlinson-hunter.com

Partners
Chris Bliss FCA
Simon Jennings FCA
Mark Harris FCA
Frances Jennings ACA
David Barker CTA
Kulwarn Nagra FCA
Paul Baker ACA
Sally Ousley CTA
Andrew Shilling FCA
Craig Davies FCA
Graeme Privett CTA
Chris Hawley ACA
Phil Collington CTA
Toby Crooks ACA
Michael Foster CTA

Directors
Lynnette Bober ACA
Karen Doe
Paul Huggins ACA
Lynne Hunt FCA
Nigel Medhurst AIIT
Anita Millar-Neale CTA
Al Nawrocki CTA
Alex Temlett CA
Trevor Warmington CTA

Consultants
Philip Prettejohn FCA
Ralph Stockwell FCA