Autumn 2016

FINANCE DIRECTORS' UPDATE

Bishop Fleming

Accounting update for corporate businesses

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2016 FINALIST

Brexit special

What does Brexit mean for grant funding, businesses with EU subsidiaries and employees?

The Brexit Referendum must be one of the most talked about and widely publicised events in the UK's recent political history. The result has thrown up more questions than it has answered and in the words of US sportsman and part-time philosopher, Yogi Berra, "The future ain't what it used to be".

Here we take a brief look at three possible areas of concern for finance directors: the future of grant funding, setting up EU branches and subsidiaries to remain in the single market, and the future of EU workers employed in the UK.

The future of grant funding

The Treasury recently stated that all structural and investment fund (ESIF) projects with signed contracts in place before the 23 November 2016 Autumn Statement will be fully funded, even when these projects continue beyond the UK's departure from the European Union.

These include projects funded under the European Regional Development Fund (ERDF), the European Territorial Cooperation (INTERREG), the European Social Fund (ESF), the European Maritime and Fisheries Fund (EMFF), and the European Agricultural Fund for Rural Development (EAFRD).

Where UK organisations bid directly to the European Commission on a competitive basis for EU funding projects while we remain members of the EU, the Treasury will underwrite the payments of awards made, even when specific projects go beyond the UK's departure date.

In addition, the current level of agricultural funding under CAP Pillar 1 will be upheld until 2020. This means that farmers are assured of current levels of funding until 2020, and any agri-environmental schemes agreed before the Autumn Statement will be fully funded, even when these projects continue beyond the UK's departure from the EU.

What needs to be clarified?

The Treasury is currently assessing to guarantee funding for specific ESIF projects that might be signed off after the Autumn Statement, but while we remain a member of the EU. Full details will be provided in the Autumn Statement, so watch this space for a future update.

The Treasury has said that the UK will continue to have all the rights, obligations and benefits that membership of the EU brings, including receiving European funding, up to the point we leave the EU. What is unclear however, is what happens after we leave the EU, or indeed when that might be. Those parts of the country such as the South West and the Midlands that receive significant amounts of EU funding are still unclear on whether central government will make up any shortfall in earmarked ESIF money after we leave the EU. This is what Donald Rumsfeld would have called a "known unknown".

What does this mean for the SME business?

It is worth remembering that we are still members of the EU until at least two years after Article 50 is invoked, which will take us to the end of 2018 at least. But whilst we await further clarification, for the business sector, there are a wide range of grant and business support programmes currently open and contracted, and nothing will change for these schemes in the short-term.

Setting up an EU branch or subsidiary

Many UK companies may wish to secure continued access to the single market, should we leave it as part of our withdrawal from the EU. Those which are heavily reliant on exports to the EU will be formulating contingency plans to ensure continuity of access to the single market.

Loss of access could affect tariff-free trading, withholding taxes, recruitment of key staff, flexibility over group structures, and "passports" to carry on certain regulated businesses in EU member states.

In order to ensure no loss of existing rights, companies may be thinking of setting up operations now through subsidiaries or branches in remaining EU member states. But such an early move is not without its dangers.

Risks v rewards

Rushing ahead with setting up EU branches and subsidiaries, before we even have clarity around the form of relationship the UK will have with the EU post-Brexit, could mean companies missing out on unexpected benefits from remaining in the UK, or even discovering the changes were unnecessary. Transferring assets, services and people into newly created EU entities does not come without setup and running costs, and may also have substantial tax penalties which could make such a move prohibitively expensive in terms of capital gains tax, stamp duty, and other taxes. There could also be an impact on existing contracts.

Reorganising the business ahead of Brexit requires careful planning. As negotiations proceed, the UK's future relationship with the EU will become clearer, as will the action needed to protect markets and future trade.

UK employers of EU workers

There is uncertainty among UK employers over what they should be doing with their current EU workers. Negotiations between the UK and EU will determine the exact arrangements, although one can speculate as to what those arrangements might be:

- Those employed can remain in the UK without any restrictions;
- Entry restrictions are imposed on EU workers; or
- EU workers have to gain a new type of permission to stay.

Brexit contingency planning

Whilst the position remains unclear, employers can carry out some contingency planning, such as formalising current EU workers' employment with paperwork in place showing that they were employed before the UK left the EU. Where this cannot be shown, workers may be wrongly subjected to restrictions.

Future restrictions post Brexit

It may be that the UK will extend to EU workers the points-based/sponsorship system or workplace visas that currently applies to some non-EU workers. This could rank workers in to tiers based on their skills and the type of work involved, each tier having entry requirements such as English language ability, financial support and previous experience. Where employers choose not to formalise employment of EU workers, they could be left unable to prove their status, so carrying out some advance planning could make sense.

Future editions of this update will highlight other areas of concern surrounding Brexit, but please contact us if you wish to discuss specific issues.

The future of tax is digital...

Companies will have to keep digital accounting records and file quarterly updates with HM Revenue & Customs (HMRC), under plans unveiled by the government.

The scheme is planned to be rolled out for companies by 2020, and will be the biggest change in the tax system for decades. From May 2017, businesses should also be able to register a new company and sign up for taxes in a streamlined process created jointly by HMRC and Companies House.

The proposal is that businesses will feed information on income and expenditure into their own tax software, from where it will be sent on to HMRC in summary form once a quarter.

Businesses will be given a number of months from the end of their accounting period end to complete any 'end of year' activity, at which point their tax liability for that particular year will then be finalised. It is not yet clear how groups will be affected.

It is proposed that as part of the reforms, businesses will be able to make voluntary payments on a pay-as-you-go (PAYG) basis. It is not clear yet how this will fit in with companies already paying quarterly instalments.

A new points-based penalty system will be introduced under which financial penalties will only be imposed after the fourth offence. Each additional 'point' will result in an additional fine. Points will be re-set to zero after a period of compliance. A new regime is also envisaged for late payments of tax. The government has said it will issue further details for companies later this year.

For further information please contact:
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PSC Register and your obligations

From 6 April 2016, UK Companies and Limited Liability Partnerships have been required to maintain a People with Significant Control (PSC) register and investigate any potential PSC's who warrant entry onto the register. This was introduced in the Small Business, Enterprise and Employment (SBEE) Act 2015, as part of the government's drive for greater transparency.

At present, the requirement to keep a PSC register only extends to companies incorporated under the Companies Act 2006, Limited Liability Partnerships and Societates Europaeae. Unincorporated entities (e.g. sole traders, partnerships, unincorporated charities) are not affected by the legislation.

The nominated PSC (person or legal entity) will be required to be filed at Companies House via the new Confirmation Statement, which is replacing the existing Annual Return. The information held on the public register will not include the PSC's usual residential address (unless this address is provided as a service address) or PSC's day of birth. The confirmation statement replaced the annual return from 30 June 2016, and this was the first date a company could file their PSC register at Companies House.

For full set of Q&A's about the PSC register and your obligations, please visit www.bishopfleming.co.uk/psc

Or for more information please contact:
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Tax avoidance measures raise £3 billion

HM Revenue and Customs (HMRC) has collected £3bn from Advance Payment Notices (APNs), the mechanism by which taxpayers who have used a tax planning scheme with which HMRC has an issue have to pay the disputed tax in advance of their affairs being investigated by the department.

Since they were first introduced in 2014, some 60,000 APNs have been issued, targeted at over 1,000 different types of planning schemes, including film schemes, Employee Benefit Trusts and Employee Funded Retirement Benefit Schemes. APNs are primarily designed to discourage the use of such schemes and to remove any economic advantage of taking part in one, by forcing the taxpayer to pay the tax they have saved before the dispute with HMRC is resolved.

Paying the tax

Once in receipt of an APN, a taxpayer normally has 90 days to pay it, or make representations to HMRC that they consider the notice to be incorrect. Some taxpayers have faced bankruptcy as a result of receiving an APN, although HMRC will consider a reasonable request for time to pay.

APNs remove the cash flow advantage of a planning scheme, so some taxpayers may wish to settle early at a figure which could be less than the combined costs of the APN and litigation, and be spared the long period of uncertainty which would occur where the case is taken through the courts.

Challenging an APN

HMRC has so far successfully defended the APN rules in a number of Judicial Review challenges. The department also claims to have won around 90% of avoidance litigation cases brought against it, with the vast majority of individuals choosing to settle their tax bill rather than engaging in protracted and costly litigation.

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We've been shortlisted for two national accountancy awards - again!

British Accountancy Awards
2016 FINALIST

Bishop Fleming has been shortlisted for the "Mid-tier firm of the year" for the second year running and for the "Top 50 Audit Team of the year".

The shortlist has been made on how each entrant added significant value to clients across all service areas, with services having been fundamental in enabling clients to achieve their business goals, whilst the 'Top 50 Audit Team of the year' award is designed to recognise audit advice that has delivered the greatest measurable benefit to clients.

Matthew Lee, Managing Partner comments "Our shortlisting for this award was based on the judges' view of how we have delivered innovation, a return on our clients' investment, the quality of our audit advice, and the impact we have had on our clients' businesses. We are obviously delighted to be shortlisted".

The results of the British Accountancy Awards will be announced at a black-tie event in London on Tuesday 29th November. The awards shortlisting coincides with Bishop Fleming leaping up the Accountancy Age list of top 50 accountancy firms in the country to number 33, a rise of three places in just the last twelve months.

Welcome: Nathan Coughlin

Nathan Coughlin, CTA, specialises in audits of commercial clients and also not for profit sectors including the education and housing.

Nathan recently joined Bishop Fleming's Plymouth office after working in an office of a big four audit practice. Nathan commented "I work closely with clients to build a deep understanding of their business and help them find pragmatic and practical solutions to problems".

Nathan has strong technical skills and experience with clients across both the public and private sector and has assisted many of them with converting to new accounting standards. In addition to external audit, Nathan has managed internal audit assignments and assisted clients with risk management, governance and value for money reviews. He draws upon this experience to make practical recommendations to improve the effectiveness of the control environment for all of his clients.

Nathan Coughlin, Audit Director can be contacted on:

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THE SUNDAY TIMES 100 BEST COMPANIES TO WORK FOR 2016

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Recent deals

Bishop Fleming advised on over 30 deals with an aggregate value in excess of £200million within the last 12 months.

Highlights include a management buy out for Expolink, an aquisition for Solar Communications and a business extraction for PCH Dental. For further information or to see the latest transaction highlights, visit www.bishopfleming.co.uk/cfupdate

A great breakfast? Useful subject matter? Like-minded people? **Perfect!**

A series of CPD courses for Senior Finance Professionals are planned for 2017, if you would like to receive further information or an invitation, please register here: www.bishopfleming.co.uk/signup

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