
Resolve Newsletter October - November 06

Contents:

1. [Employee expenses](#)
2. [Software buyers guide for start-ups](#)
3. [Working from home – what expenses can you claim?](#)
4. [Work experience for the taxman](#)
5. [Flexible working \(Caliam Consulting\)](#)
6. [Sage and Quickbooks training](#)

Find out in section 6 how Rebecca Wooderson (below) is helping our clients.



1. Employee expenses

Unfortunately we commence our fourteenth newsletter with news of a recent decision by the special commissioner (SC) relating to expenses claimed by an employee.

A psychiatrist employed by the NHS claimed a deduction for training costs. The training course had been approved by her employer, though, the NHS did not have funds to pay for it and she paid for it herself.

Generally, employees have to pass the test in section 363 of the Income Tax (Earnings and Pensions) Act 2003, stating:

A deduction from earnings is allowed if:

- the employee is obliged to incur and pay it as holder of the employment
- the amount is incurred wholly, exclusively and necessarily in the performance of the duties of the employment

The key issues in the psychiatrist case were:

- Was the employee obliged to pay for the training?
- Were the expenses wholly, exclusively and necessarily incurred?
- Were the expenses incurred in the performance of the employment?
- Was it relevant that the employee had been allowed a similar deduction in the past?

Obligation to pay

Part of the psychiatrist's contract of employment required her to be a member of a professional body. This body requires its members to undertake professional training to maintain the qualification. The SC deemed that she may have been obliged to incur the expenses as part of her continuing professional development.

Wholly, exclusively and necessarily

The training led to a qualification that was desirable for the job, but not essential, therefore, the expenditure was not "necessarily" incurred.

In the performance of the duties

The SC held that the training course was not "in the performance of the duties of the employment". The training was deemed as distinct from the duties of the employment.

Treatment in previous years

The SC deemed the fact that these amounts had been allowed as a tax deduction in previous years as irrelevant. The employee was deemed "lucky" to have received a deduction in the past and that this treatment may have been incorrect.

Concluding thoughts

This is a notoriously difficult topic and the tests are hard to assess and pass. If an employer pays for the training of an employee or an employee pays for it and claims a tax deduction for it, a letter should be sought from HMRC clarifying their position on it prior to the cost being incurred.

2. Software buyers guide for start-ups

Good financial information is vital to the success of any business. This is even more important for businesses in a start-up situation. Appropriate accounting software can make information easier to produce and more timely for businesses, however, the wrong software can actually make administration and bookkeeping more problematic.

With various packages to choose from (including excel) and banks pushing their own software into the marketplace, what can a start-up business do to make sure the right software is purchased?

Consult a good accountant

Start ups should definitely consult their accountant for advice on what software is most appropriate for them. We have experience in Sage (almost all packages), Quickbooks and MYOB in our practice and will provide this advice for free to clients and start ups. We believe it is very important that businesses choose software that their accountant can support. We often provide training and support for clients on their software.

Try before you buy

Most suppliers will allow a test drive on their software before a purchase is required. We recommend that the person doing the book keeping tries out the software for a month or so prior to purchasing it. Some of the latest products will only work on an Windows XP operating system.

Getting started

Again, working with your accountant at this stage is advisable. Some time spent on the set up will save time and queries later and avoid mistakes that have to be corrected at a later date.

Choosing the correct chart of accounts and VAT structure will in some cases be made easy by the software, but in other cases, businesses will be expected to know what they want. Sage comes with a CD-ROM of start up help.

Consideration should be given to invoicing, statements for customers and the format of these important documents.

Reporting

Software should be able to assist with questions such as:

- How am I doing?
- Am I doing better than last month or last year?
- How much money do I have?
- How much VAT do I owe?
- Who owes the business money?
- What bills have to be paid this month?

Good software will have reports to answer these questions at the press of a button.

Some software will be able to print data to excel to allow the user to manipulate it.

Value for money

The cost of the software advertised may not be the only cost to consider. Often a support package may be required and the amount payable initially may be payable annually to renew the licence.

If the business is likely to grow quickly, additional functionality may be required which may render the software out of date or mean that upgrades are required. If a business needs to generate electronic purchase orders or account for foreign currency transactions, a more comprehensive accounting package will be required.

In the very early stages of a business that does not have a large sales ledger (i.e. does not raise a lot of invoices or generate customer statements) excel is perfectly adequate. A simple book keeping template can assist in preparation of VAT returns and controlling the business.

We provide all of our clients that require this support with a template that is tailored to their business; so, expect the same from your accountant.

Online book keeping

There has been a lot written in the last couple of years about online accounting and many accountants offer an online book keeping package through a supplier relationship as their unique selling point. We just don't see the benefit to be gained over a local or server based system at a client's site from which data can be emailed to your accountant. The latest version of Sage Line 50 offers the facility for others to access your data across the web.

Our December / January newsletter will feature our thoughts on software for existing businesses.



3. Working from home – what expenses can you claim?

As this is a topic that we cover with our clients very frequently, we thought we would publish our guide to claiming the costs of working from home.

We expect HMRC to publish a guide to this topic in the near future, however, the position at the moment is as follows (and we do not expect this to change dramatically):

As a basic rule, expenses that are incurred wholly and exclusively for the purposes of the trade may be deducted from business income. However, if an expense is incurred for more than one purpose, we are not prohibited from taking the purely business element as a tax deduction, good news!

Every individual that works from home is entitled to claim £2 a week as a deduction for this. £104 per employee per annum can add up across a business with a lot of employees, bringing the employer and the employee advantages.

In addition to this the costs of running a home office can be claimed. If there is a phone bill for example the business calls can be claimed, but not the rental, because the business element of the rental cannot be separated.

A proportion of the rates, insurances, heating and lighting bills based on the square footage of the office compared to the size of the house can be claimed as a business expense.

A word of caution though! If a room is used solely as an office, that proportion of the house could attract a Capital Gains Tax charge. This will probably outweigh any benefits gained by claiming working from home expenses as a tax deduction.

For an insight into the benefits of working from home and flexible working please have a look at section 6 of the newsletter.

When further guidance on this is published by HMRC we will let you know.



4. Work experience for the taxman

You may be familiar with “take your child to work day”. On these days, employees are encouraged to bring their teenage children to work to show them what mum and dad get up to during the day.

We have learned that the taxman wants to get similar treatment in a scheme nicknamed “take your taxman to work week”. Under the scheme the taxman will visit a volunteer business to learn about the difficulties of running a business. The visit may last a few days or a few weeks.

We are all for the employees of HMRC gaining more commercial experience, however, our concern is that the taxman will use it as a chance to gather information about a business that could be used against it in the future. HMRC claim it is an exercise in building relationships and trust.

If the taxman wanted to come to our offices though to experience the frustrations in dealing with HMRC we would be delighted to make a desk available for a few days!

Don't panic; it is aimed at this stage at larger companies, i.e. those with more than 250 employees. Small businesses appear safe at the moment, however, watch this space.



5. Flexible working (Caliam Consulting)

Potential employees entering the job market increasingly look to potential employers to be flexible in their approach to working practices. There can now be little doubt that offering

flexible working practices may allow smaller businesses to compete with the traditional larger employers for quality staff.

Recent research has indicated that flexible working practices are highly valued across the whole age profile of staff, the perceived benefits to the employee being an improved work / life balance, less stress and reduced travel to work time.

Smaller businesses particularly may be interested to know that many current and potential employees would consider lower pay to be able to work at home. Many individuals consider that flexible working is the most important benefit an employer can offer. With the huge technological advances that we see today, many now question why it is so critical to be at the office for the traditional working week.

There are, of course, many issues that companies will have to consider when contemplating introducing such practices. The easiest answer is that 'it won't work here'. However, with employment costs and staff retention issues high on the agenda for many directors, flexible working may offer a productive and cost effective means of attracting and retaining the quality staff that everyone works so hard to recruit.

What do Caliam Consulting do?

Caliam provide a range of tailored HR services - they can work with and support an existing HR department or can provide a comprehensive outsourced service to businesses that require access to the skills of a qualified human resources expert, but cannot justify the expense of employing a full-time person.

Read more about Caliam: <http://www.caliamconsulting.co.uk/services.htm>

6. Sage and Quickbooks training

For a while now we have been trying to find the right person to be able to offer our clients Sage and Quickbooks support.

We've cracked it.



Our new Practice Manager, Rebecca Wooderson has been with us since August. Rebecca is a strong administrator and runs our Histon office, however, she is also an experienced book keeper, a Sage, Quickbooks expert and trainer.

We are pleased to have this resource in the business.

We are now able to offer tailored training for businesses on Sage and Quickbooks software. We guarantee time saving tips, efficiencies and process improvements.

Our clients can take advantage of this resource, often at no extra cost by getting in touch with us. Rebecca is currently helping at least five of our clients on invoicing, bank reconciliations, supplier statements and other issues.



Disclaimer

Resolve Business Solutions are a registered firm of Chartered Accountants and advise that you seek professional advice before making decisions on tax and accounting matters that may be referred to above.