COMPASS ACCOUNTANTS

TAX ANGLES FOR PROACTIVE PLANNING

Newsletter - April 2019

In this month's edition…

- MTD software - what do you need?
- Capital allowances - write off small pools
- Reducing your payments on account
- Tax-free taxis
- Tax-free savings income of £18,500
- Introducing Evergreen Insurance Services

MTD software – what do you need?

Making Tax Digital (MTD) for VAT went live on 1 April 2019. VAT registered businesses with VATable turnover above the VAT registration threshold of £85,000 are required to comply with the requirements of MTD for VAT from the start of their first VAT accounting period beginning on or after 1 April 2019. For certain businesses, including those in VAT groups, the start date is delayed until 1 October 2019. Where the business is VAT registered but VATable turnover is below £85,000, MTD for VAT is optional.
MTD for VAT imposes two digital requirements – digital record-keeping and digital VAT returns.

Digital record-keeping
Under MTD for VAT, records must be kept digitally within MTD-compatible software. Some software will record all VAT records and accounts. The type of package used may affect whether it is necessary to retain the original document.

Where a business receives an invoice and enters the information into the MTD-compatible software, the original invoice must be retained as the software is not a copy of the invoice. However, if the invoice is scanned into the software, there is no need to retain it, unless it is required for another purpose. However, it should be noted that VAT law requires the originals of some documents to be retained.

Records that must be kept digitally include:
- designatory data – business name, address of the principal place of business, VAT registration number and any VAT schemes used;
- supplies made – time of supply (tax point), value of supply and rate of VAT;
- supplies received – time of supply (tax point), value of supply, amount of input tax claimed;
- reverse charge transactions.

To support the VAT returns, summary data must also be maintained in the MTD-compatible software as follows:
- total output tax owed
- total tax owed on acquisitions from other EU member states
- total tax that is required to be paid on behalf of supplies under a reverse charge procedure
- total input tax entitled to claim on business purchases
- input tax on allowable acquisitions from other EU member states
- total tax that need to be paid or reclaimed following the correction of an error or adjustment
- any other adjustment allowed or required by the VAT rules

Where the flat rate scheme is used, there is no need to keep a digital record of purchases unless they are capital expenditure goods on which input tax is claimed. Nor is it necessary to keep a digital record of the goods used in the limited cost business calculation.

VAT returns
The second part of MTD for VAT is the requirement to file VAT returns digitally using MTD-compatible software. HMRC's VAT Online service cannot be used for MTD for VAT.

Compatible software
MTD-compatible software (also known as 'functional compatible software') is a software program or set of software programs or applications that are capable of:

- recording and preserving digital records;
- providing information and returns to HMRC from date held in the digital records using the API platform; and
- receive information via the API platform.

Some software packages will perform all of the above, some will perform some but not all, so more than one product may be needed. Spreadsheets can be used to record data, but another piece of software will be needed to file the return.

The links between the different software packages used should be digital. However, while transferring data manually between programs is not acceptable under MTD for VAT – such as keying numbers from a spreadsheet into a package to send a return or 'cutting and pasting' HMRC are operating a 'soft landing' and will permit this for the first year.

Software suppliers
HMRC produce a list of software suppliers who produce software compatible with MTD for VAT. The list can be found on the Gov.uk website at www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-vat.

Capital allowances – write off small pools

Businesses which are not using the cash basis can claim capital allowances for capital items that are used in the business, such as plant and machinery, tools and equipment, and so on.

Where the annual investment allowance, which gives an immediate 100% deduction against profits is not claimed, either because the allowance has been used up or because a claim is not beneficial, for example to prevent personal allowances from being wasted, relief for qualifying capital expenditure is given by means of a writing down allowance. Allowances are given at the rate of 18% on the main pool. A reduced rate (8% before 1/6 April 2019 and 6% thereafter) applies to assets in a special rate pool, for example high emission cars and integral features.

Small pools allowance
The legislation allows the whole balance of the main pool to be written off in a single year when the value of the pool is less than £1,000. This is known as the small pools allowance. The allowance, equal to the tax written down value of the pool, is claimed instead of the writing down allowance.

The £1,000 limit is adjusted proportionately where the accounting period is more or less than 12 months (so £500 for a six-month period and £1,500 for an 18-month period).

Example
Ben is a self-employed website designer. He prepares accounts to 31 March each year. He purchased a computer and printer in April 2017 for a total cost of £1,400. To preserve his personal allowance, he claims a writing down allowance instead of the annual investment allowance. The cost of the computer and printer is allocated to the main pool.
In 2017/18 he claims a writing down allowance of £252 (£1,400 @ 18%). The tax written down value of the pool on 1 April 2018 is £1,148.

For 2018/19 he claims a writing down allowance of £207 (£1,148@ 18%). The tax written down value is £941.

For 2019/20, Ben claims the small pools allowance and is able to deduct the remaining pool balance of £941 from his profits instead of a writing down allowance of £169. This reduces his profits for the year by £772.

Assuming Ben is a basic rate taxpayer, claiming the small pools allowance will save him tax of £154 in 2019/20.

Reducing your payments on account

Under the self-assessment system, a taxpayer is required to make payments on account – advance payments towards the eventual tax and National Insurance liability – where the previous year's self-assessment bill was £1,000 or more, unless more than 80% of the tax liability is deducted at source, for example, under PAYE.

The self-assessment return for the 2017/18 tax year was due by 31 January 2019. It is the tax liability for 2017/18 which determines whether payments on account are due for 2018/19, and where they are, the amount of those payments.

Each payment on account is 50% of the previous year's self-assessment tax and, for the self-employed, Class 4 National Insurance liability. Class 2 National Insurance, while payable under the self-assessment system, is not taken into account in working out the payments on account.

Where they are due, payments on account must be made by 31 January in the tax year and 31 July after the end of the tax year. Any final adjustment is made by 31 January after the tax year once the self-assessment return has been made, with any balance for the year being due by that date. Where the eventual liability is less than the payments made on account, the excess is refunded or set against the following year's payments on account. However, HMRC may hold back the repayment where tax liabilities will fall due within the next 45 days until those liabilities have been paid.

Reduce your payments on account
If you know that your tax liability for the current year is going to be less than the previous year, you can apply to reduce your payments on account. This may be the case if you have suffered a downturn in trade or lost a major customer. If this is known at the time you file your self-assessment return, you can do this at the outset before you make the first payment on account. Alternatively, it can be done later in the year, for example once the accounting period has come to an end and the profit figure is known.

An application to reduce payments on account can be made online via the personal tax account.

Example
Holly had a self-assessment tax and Class 4 National Insurance liability of £1,800 for 2017/18. Based on this, she is liable to make payments on account of £900 for 2018/19 by 31 January 2019 and 31 July 2019.
Holly prepares accounts to 31 March each year. She prepares her accounts to 31 March 2019 in April 2019, calculating that her tax and Class 4 National Insurance liability for 2018/19 is £1,400. As a result, she applies to reduce each payment on account to £700.

As she has already paid the first payment on account of £900, she claims a refund of £200. She makes the second (reduced) payment on account of £700 by 31 July 2019.

By 31 January 2020, she must pay her Class 2 National Insurance liability for 2018/19, together with the first payment on account of £700 for 2019/20 (being 50% of her 2018/19 liability).

Beware of reducing the payments on account too much as interest will be charged on any shortfall between the payments made and 50% of the actual liability.

Tax-free taxis

There may be occasions on which an employer provides an employee with a taxi either to or from work. As a general rule, where an employer pays for a taxi for an employee's journey between home and work, there is a taxable benefit as journeys between home and work are regarded as private, rather than business, journeys.

However, depending on the circumstances, it might be possible to provide a taxi without triggering a tax liability.

Late night taxis
There is a specific tax exemption for the provision of late-night taxis home. However, as with all exemptions, it is only available if the associated conditions are met. There are four late working conditions, all of which must be met:

- the employee is required to work later than usual and until at least 9pm;
- this occurs irregularly;
- by the time that the employee ceases work, either public transport has ceased or it would not be reasonable to expect the employee to use public transport; and
- the transport home is provided by taxi or similar road transport.

Further, the provision of a tax-free taxi for late working and the failure of car sharing arrangements is capped at 60 occasions in the tax year.

Example
Polly works in a patisserie. To ensure that they are able to complete a large order for a wedding, Polly works until 10pm. Her normal working hours are 9am to 5pm.

Working late to finish orders happens occasionally. As the bus that Polly normally takes to work does not run after 8.30pm, her employer pays for a taxi home. She has provided a taxi on three previous occasions in the tax year when Polly has worked late. The conditions for the exemption are met and no tax liability arises as a result of the provision of the taxi.

Failure of car sharing arrangements
The tax exemption also applies if the employer provides an employee with a taxi home from work where the employee's normal car sharing arrangements fail. The exemption is available where the employee regularly travels to work in a shared car with one or more employees employed by the same employer and, due to unforeseen circumstances, the car sharing arrangement is unavailable. This may happen, for example, if the driver is taken ill and has to leave work early.

The cap of 60 tax-free journeys in the year applies to taxis provided either because the employee works late or the car sharing arrangements fail.

A trivial benefit?
Depending on the circumstances, it may be possible to provide a taxi home tax-free by taking advantage of the trivial benefits exemption where the exemption for late night taxis or failed car sharing arrangements is not available. However, it should not be assumed that this exemption will apply automatically if the cost of the taxi fare is less than £50.

One of the conditions that must be met for the trivial benefits exemption to apply is that the benefit must not be provided in recognition of services provided by the employee. This condition will fail, for example, if an employer provides a taxi home because the employee has worked later than usual. So, for example, if an employee works until 8pm and the employer provides a taxi home, the late-night taxis exemption will not apply as the employee has not worked until 9pm and the trivial benefits exemption will not apply as the taxi is provided in return for working late. Thus, the benefit will be taxable.

However, if the employer provides a taxi home after, say, a department meal out, the trivial benefits exemption may be in point.

Tax-free savings income of £18,500

Where income is mainly derived from savings, it is possible to enjoy tax-free savings income of up to £18,500 tax-free in 2019/20 in addition to that held in tax-free wrappers, such as individual savings accounts (ISAs).

The ability to enjoy savings income tax-free is made up of three components:

- the personal allowance;
- the zero-starting rate for savings; and
- the personal savings allowance.

The personal allowance
The personal allowance is available to set against all income. It is set at £12,500 for 2019/20, but is reduced by £1 for every £2 by which income exceeds £100,000.

Where the personal allowance is not set against other income, such as that from employment or self-employment or income from property, it can be used against savings income. So, for example, if a person has a pension of £8,000, the remaining £4,500 of the personal allowance could potentially be utilised against savings income.

Savings starting rate
The savings starting rate is set at 0% for 2019/20 and applies to up to the first £5,000 of taxable savings income but its availability depends on the individual's other income. The savings starting rate is only available where taxable non-savings income is less than £5,000. Where the individual has no taxable non-savings income, the zero starting rate applies to £5,000 of savings income; where the individual's taxable non-savings income is between £0 and £5,000, the savings starting rate band is reduced by the amount of the taxable non-savings income.

This would mean for example, if a person had a salary of £14,000, of which £12,500 is set against the personal allowance, the starting savings rate band would be reduced by their taxable income of £1,500 to £3,500.

Personal savings allowance
The personal savings allowance is available to basic rate and higher rate taxpayers only – additional rate taxpayers do not benefit from a personal savings allowance. For 2019/20, the personal savings allowance is set at £1,000 for basic rate taxpayers and at £500 for higher rate taxpayers. It is available in addition to the personal allowance and, where available, the savings starting rate.

Case study: £18,500 in tax free savings income
Albert is a pensioner. In 2019/20 his only income is savings income of £20,000.
The first £12,500 of his savings income is covered by the personal allowance.
As Albert has no taxable non-savings income, the starting savings rate of zero is available for the next £5,000 of his savings income.

Albert is also able to benefit from the personal savings allowance of £1,000, sheltering a further £1,000 of savings income.
As result of the above, Albert is able to enjoy the first £18,500 of his savings income tax-free (£12,500 + £5,000 + £1,000).

The remaining £1,500 (£20,000 - £18,500) is taxed at the basic rate of 20% - a tax bill of £300 on savings income of £20,000.

Introducing …. Evergreen Insurance Services

Compass Accountants would like to introduce you to Dave Gardiner- the founder of the ethical business, Evergreen Insurance Services….

Evergreen Insurance has been providing personal and commercial services for both individuals and businesses for over 2 years - but it isn't your average run of the mill provider.

Founder of Evergreen, Dave Gardiner, has a love and passion for nature and the environment, which is the driving force behind the business. With an impressive background in insurance and 20 years' experience in the industry, Dave launched Evergreen in 2017, when he decided to positively impact the environment whilst providing a service.

How is this done? Well, when clients of Evergreen sign up, they choose from one of over 20 different environmental and wildlife charities that the business supports, and a percentage of the commission fees that Evergreen earns are donated to that particular charity (at no extra cost to clients).

In the first year, this contribution is 10% of Evergreens' commission fee, in the second this rises to 15%, and on the third- (and all other consecutive years)- 25% of profits from each client go to the chosen charities. Evergreen even strives to demonstrate to clients the direct impact their custom has had, by providing tangible evidence and feedback from the respective charity projects.

"What we offer is quite unique." Explains Dave Gardiner. "Many organisations may make a donation towards a specific project or may have a trust for charities- but there isn't really anyone like us that says, if you take a policy out with us you will support a particular charity of your choice."

The charities that Evergreen supports are a varied group of causes including the Bumble Bee Conservation Trust, Buglife, LionAid, Butterfly Conservation, Just One Ocean, League Against Cruel Sports, Whale and Dolphin Conservation and many, many more.
"The person taking out the policy can decide on the charity they support – and if they are unable to choose, the profits can be spread across all." continues Dave, "We are also constantly looking for environmental programmes, charities and conservation parties to team up with to increase the causes we support."

"We want to grow our business to help our clients with their commercial and personal insurance needs whilst helping to support the natural world. This is a business model that comes from a passionate person, who loves wildlife, who has seen a way of making a change whilst running a business."

"We are as passionate about providing great insurance solutions coupled with outstanding service as we are about the natural world and want to help raise much needed funds to protect our precious environment. Many people are unaware of the fact that making choices about your day to day purchases can have a huge impact on that planet."

"We are now about to embark on various other projects, for example we hope to partner with a 100% renewable energy company and a not-for-profit telephony company that buys land to develop and sustain meadow environments."

If you would like to find out more about Evergreen's personal OR commercial insurance services, please go to the website and learn about the different charities you can make a difference to.

Evergreen can help with a broad range of insurance needs from charities, offices, shops and vehicle fleets to home, pets and holidays.

You can request your quote from the Evergreen website

www.evergreeninsuranceservices.co.uk
Or by calling: 020 3372 2160 (Mon- Fri – 9am-5.30pm)

Tax Diary
April/May 2019

1st April 2019 Due date for Corporation Tax for years ended 30th June 2018.

19th April 2019 PAYE and NIC deductions due for month ended 5th April 2019. (If you pay your tax electronically the due date is 22nd April 2019)

19th April 2019 Filing deadline for the CIS300 monthly return for the month ended 5th April 2019.

19th April 2019 Due date for CIS tax deducted for the month ended 5th April 2019.

1st May 2019 Due date for Corporation Tax for years ended 31st July 2018.

19th May 2019 PAYE and NIC deductions due for month ended 5th May 2019. (If you pay your tax electronically the due date is 22nd May 2019)

19th May 2019 Filing deadline for the CIS300 monthly return for the month ended 5th May 2019.

19th May 2019 Due date for CIS tax deducted for the month ended 5th May 2019.

Contact us

For further information on any of the stories in this month's newsletter, or for any other matter that Compass Accountants can assist you with, please contact us on 01329 844145.

Contact us:
TEL: 01329 844145
EMAIL: contact@compassaccountants.co.uk

Compass Accountants

Venture House,
The Tanneries, East Street, Titchfield
Hampshire
PO14 4AR