Compass Accountants

Newsletter - April/May 16

Helping you to shape your future… not just accounting for your past…

TaxAngles - For proactive tax planning

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Cars and fuel: Impact of 2016/17 changes on your tax bill

A benefit-in-kind tax charge arises when a company car is also available for private use. The amount that is taxed in respect of this benefit is a percentage of the list price of the car when it was new. The percentage (known as the appropriate percentage) depends on the CO2 emissions of the car.

The Government tightens the emissions criteria each year, so that the appropriate percentage for a given level of emissions is higher next year than this year, and higher this year than last year (subject to the maximum charge of 37% of the list price).

This means that even if you do not change your car (and notwithstanding the fact that it is a year older with more mileage on the clock) the amount that is taxed in respect of the car will increase each year.

2016/17 changes

The appropriate percentage is increased generally by 2% in 2016/17 as compared to 2015/16. What does this mean for your tax bill?

Example

James has a company car that cost £20,000 in 2014. It has CO2 emissions of 140g/km. James is a higher rate taxpayer paying tax at 40%.

In 2015/16 the appropriate percentage for a car with CO2 emissions of 140g/km was 23%. In 2016/17 it is two percentage points higher, at 25%.

The cash equivalent of the benefit of the car £4,600 in 2015/16 and £5,000 in 2016/17. This will cost James £1,840 in tax in 2015/15 and £2,000 in 2016/17.

As a result of changes to the appropriate percentage James will pay £160 more in tax in 2016/17 than in 2015/16 despite having the same car which is a year older.

Fuel – a double whammy

A separate tax charge arises where fuel is provided for private journeys in a company car. The amount taxed in respect of the private fuel is found by multiplying the appropriate percentage used to find the car benefit by the multiplier. As illustrated above, the Government increase the appropriate percentage each year. They also increase the multiplier – a double hit!
The fuel benefit is unrelated to the cost of fuel and will rise each year, even if the price of fuel falls.

Example

James also receives fuel for private motoring. As noted above, the appropriate percentage is 23% for 2015/16 and 25% for 2016/17.

The fuel multiplier is £22,100 for 2015/16 and £22,200 for 2016/17.

In 2015/16, for James, the amount charged to tax is £5,083 (23% of £22,100). This rises to £5,550 (25% of £22,200) for 2016/17, reflecting the increase in both the percentage and the multiplier. As a result, the tax payable by James (at 40%) is £2,033.20 in 2015/16 and £2,220 in 2016-17 – an increase of £186.80.

Need to know – Annual increases in the appropriate percentages and fuel multiplier mean that you will generally pay more tax for your company car in 2016/17 than in 2015/16, even if nothing changes.

Quote of the month…

"People who don't take risks generally make about two big mistakes a year. People who do take risks generally make about two big mistakes a year" - Peter Drucker, Management Guru.

Dividend allowance

Question: When is an allowance not an allowance?

Answer: When it is the dividend allowance.

The taxation of dividends changed significantly from 6 April 2016. Gone is the 10% tax credit and the need to gross up to find the taxable amount and in its place a new dividend allowance and new rates of tax.

What is the allowance?

The dividend allowance is set at £5,000 for 2016/17. It is available to everyone, regardless of their marginal rate of tax, and means that the first £5,000 of taxable dividend income can effectively be received tax-free.

Why is it not an allowance?

Although called the `dividend allowance' by the Government, it is really a zero-rate band which works by taxing the first £5,000 of taxable dividend income at 0%.

Isn't that the same thing as an allowance?

In a word, no. Although in each case there is no tax to pay on the first £5,000 of taxable dividend income (that is dividend income not covered by the personal allowance), it is taken into account in determining how much of the basic rate or additional rate band, as appropriate has been used up. A true allowance does not eat into the available band.

What happens when the allowance has been used?

Dividends are treated as the top slice of income and once the £5,000 'allowance' has been used up, they are taxed at 7.5% to the extent that they fall in the basic rate band, 32.5% to the extent that they fall in the higher rate band, and at 38.1% to the extent that they fall in the additional rate band.

Illustration 1

For 2016/17 Mary has a salary of £11,000 and receives dividend income of £20,000. Her salary is covered by her personal allowance. The first £5,000 of the dividend is taxed at the zero rate, but it uses up the first £5,000 of the basic rate band, leaving £27,000 (£32,000 - £5,000) remaining. The balance of the dividend (£15,000) falls wholly within the basic rate band and is taxed at the dividend basic rate of 7.5% -- a tax bill of £1,125.

Illustration 2

For 2016/17 Polly has a salary of £38,000 and receives a dividend of £10,000. The first £11,000 of her salary is covered by her personal allowance and the remaining £27,000 is taxed at the basic rate of 20%, using up £27,000 of her basic rate band and leaving £5,000 remaining. The first £5,000 of the dividend is taxed at the zero rate, but this uses up the remaining £5,000 of her basic rate band, meaning the remaining £5,000 of the dividend is taxed at the dividend higher rate of 32.5% -- a tax bill of £1,625.

Illustration 3

For 2016/17, Diana receives a salary of £60,000 and a dividend of £5,000. Although she is a higher rate taxpayer, she benefits from the dividend allowance and the first £5,000 of her dividend income is taxed at a zero rate. She therefore pays no tax on her dividend.

Need to know – The dividend allowance is a £5,000 zero-rate band rather than a true allowance, but it is available to higher and additional rate taxpayers as well as those paying tax at the basic rate.

Marriage allowance – claim it if you can

For 2015/16 and later tax years, the marriage allowance allows married couples and civil partners to transfer 10% of their personal allowance to their partner as long as the recipient does not pay tax at the higher or the additional rate.

How does it work?

To benefit from claiming the marriage allowance, the lower earner must have income of less than the personal allowance (£10,600 for 2015/16 and £11,000 for 2016/17) and their partner must have income of more than the personal allowance, but not more than the level at which higher rate tax becomes payable. For 2015/16 this equates to income between £10,601 and £42,385 and for 2016/17 to income between £11,001 and £43,000.

Where the marriage allowance is claimed, 10% of the lower-earning spouse or civil partner's personal allowance is transferred to the higher-earnings spouse or civil partner.

Note – It is only possible to transfer 10% of the allowance – not more or less.

Example
Jessica and Josh are married and living together. Jessica is a stay-at-home mum to their daughter Elsie. Josh earns £25,000 from his job as a mechanic.

They claim the marriage allowance for 2015/16 and 2016/17.

For 2015/16 the personal allowance is £10,600. 10% of Jessica's personal allowance (i.e. £1,060) is transferred to Josh. Her personal allowance is reduced to £9,540 (£10,600 - £1,060) and Josh's personal allowance is increased to £11,660 (£10,600 + £1,060).

For 2016/17 the transfer is £1,100, leaving Jessica with a personal allowance of £9,900 and Josh with a personal allowance of £12,100.

Marriage allowance – claim it if you can (continued)

What is it worth?

For 2015/16 the allowance is worth £212 and for 2016/17 it is worth £220. Claiming the allowance saves tax at the basic rate on the amount transferred. The saving equates to 2% of the personal allowance for the tax year (a tax saving of 20% on 10% of the allowance).

How to apply

The marriage allowance can be claimed online on the gov.uk website at www.gov.uk/marriage-allowance.
Once claimed, the transfer will apply for subsequent years automatically. So, if your circumstances change and you no longer want to transfer the allowance, it must be cancelled. Again this can be done online.

Claims can be made for up to four years from the end of the tax year.

Tax code changes

Where the marriage allowance is claimed, this will be reflected in the tax codes of both parties. The recipient will have a tax code with an M suffix and, if the transferor is employed or receives a pension, their tax code will have an N suffix.

Need to know

Claiming the marriage allowance can save eligible couples tax of £220 in 2016/17.

Buy to Let - Common expenses that you can set against your rental income

The Chancellor appears to have it in for landlords at the moment. There is the stamp duty land tax supplement of 3% on purchases of second and subsequent residential properties where completion is on or after 1 April 2016, the restriction in interest rate relief from April 2017 onwards, and the failure to benefit from the cut in capital gains tax from 6 April 2016.

In this harsher climate, it is perhaps worthwhile making sure you have not overlooked any deductible expenses when working out your profit for your property rental business.

Wholly and exclusively

The wholly and exclusively rule applies to determine whether an expense is deductible – if it has been incurred wholly and exclusively for the purposes of the property rental business, it passes this test.

Revenue not capital

A deduction against profits is only available if the expenditure is revenue in nature rather than capital. Broadly, revenue expenses are those incurred in the day-to-day running of the business. By contrast, capital expenditure is that incurred in purchasing or improving an asset, and would include costs of extending or improving the property, a fitted kitchen or expenditure on office equipment or vehicles. However, a deduction is available for replacement furnishings from April 2016.

Expenses checklist

The following is a list of common expenses that may be deducted when computing profits (as long as the wholly and exclusively test is met):

- interest on loans to buy the property (but not capital repayments);
- letting agents' fees;
- accountants' fees;
- legal fees for lets of a year or less or for renewing a lease of 50 years or less;
- utility bills (e.g. gas, electricity);
- buildings and contents insurance;
- cleaning costs;
- maintenance costs (but not improvements);
- costs of a gardener;
- telephone calls;
- stationery and postage;
- advertising;
- staff costs;
- ground rent and service charges; and
- council tax.

This list is not exhaustive.

Replacement of furnishings

From April 2016 a deduction is available for the costs of replacing furniture, furnishings, appliances (including white goods) and kitchenware. The amount of the deduction is the cost of the replacement item (capped at the cost of an equivalent to the item replaced if the replacement is superior to the original) plus any incidental costs of acquiring the new item (such as delivery) or disposing of the old item, less anything received for the old item.

This deduction replaces the 10% wear and tear allowance but, unlike the wear and tear allowance, is not limited to furnished lets.

Need to know: Make sure you have taken out all of your deductible expenses when working out the tax on your property rental income.

Claim fixed rate deductions to save work

To make life simpler and remove the need to keep detailed records of actual expenses, businesses can claim a fixed rate deduction in respect of certain expenses. The option to claim a fixed rate is available for motor expenses and for additional household expenses where the home is used for business purposes.

Motor vehicles

Businesses can claim a fixed rate per business mile deduction for the vehicle expenses. The fixed rate deduction covers the cost of buying, running and maintaining the vehicle (including the cost of fuel, oil, servicing, repairs, insurance, VED and MOT). The use of fixed rates is optional and is open to sole traders and partnerships, as long as they do not have a corporate partner.
The fixed rates per mile are as follows:

Type of vehicle	***Flat rate per business mile***
Cars and goods vehicles:	
First 10,000 miles	45p per mile
Subsequent business miles	25p per mile
Motorcycles	24p per mile

Once a business elects to use the flat rates, they must continue to do so whilst the vehicle remains in the business. Capital allowances cannot be claimed where the simplified rates are used and if capital allowances have been claimed in respect of the vehicle in question, it is not possible to use the flat rates.

Use of home

It is also possible to claim a fixed rate deduction for the use of home for the purposes of the business. The flat rate provides an allowance for additional household running expenses incurred as a result and covers the additional costs of cleaning, heat, light, power, telephone, broadband etc.

The deduction is based on the total number of business hours spent working in the home on core business activities in the month and is as follows:

Number of hours spent on core business activities	***Flat rate per month***
25 or more	£10
51 or more	£18
101 or more	£26

Core business activities are providing goods or services, maintaining business records and marketing and obtaining new business.

Example

Louise is a nail technician. She provides a mobile service and also works from home. In 2015/16 she spent 60 hours a month working in her home on core business activities and she drove 15,000 business miles.

To save work, she claims flat rate deductions in respect of the use of her car and business use of her home.

For the car she claims a deduction of £5,750, being 10,000 miles at 45p per mile (£4,500) plus 5,000 miles at 25p per mile (£1,250).

For use of her home she claims a deduction of £18 per month – an annual deduction of £216.

Need to know: Claiming fixed rate deductions removes the need to keep records of actual costs.

Tax Diary
April/May 2016

1 April 2016 Due date for Corporation Tax for years ended 30 June 2015.

19 April 2016 PAYE and NIC deductions due for month ended 5 April 2016. (If you pay your tax electronically the due date is 22 April 2016)

19 April 2016 Filing deadline for the CIS300 monthly return for the month ended 5 April 2016.

19 April 2016 Due date for CIS tax deducted for the month ended 5 April 2016.

19 April 2016 PAYE and NIC deductions due for quarterly payments. (If you pay your tax electronically the due date is 22 April 2016)

1 May 2016 Due date for Corporation Tax for years ended 31 July 2015.

19 May 2016 PAYE and NIC deductions due for month ended 5 May 2016. (If you pay your tax electronically the due date is 22 May 2016)

19 May 2016 Filing deadline for the CIS300 monthly return for the month ended 5 May 2016.

19 May 2016 Due date for CIS tax deducted for the month ended 5 May 2016.

31 May 2016 Ensure all employees have been given their P60 for the 2015-16 tax year.

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.

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