# Compass Accountants

## Newsletter - April/May 17

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

## TaxAngles - For proactive tax planning

***In this month's edition…***

- Quote of the month
- IHT estate returns
- ISA round up
- Small pension lump sum
- Making tax digital
- The Compass family is growing
- Women for Cancer 100 km cycle ride

### IHT estate returns

When someone dies, there are forms to fill in and send to HMRC. There are different forms and the correct forms depend on whether or not there is any inheritance tax to pay. Consequently, before the forms can be completed, it is necessary to value the estate for inheritance tax purposes and determine whether any tax is due. The inheritance tax forms should be sent with the application for the grant of representation. This is the legal right to deal with the estate.

**Form IHT205 – no IHT to pay**
Where there is no IHT to pay (for example if the whole estate has been transferred to a spouse or civil partner or the value is below the nil rate band, currently £325,000), short form IHT205 (2011) should be used. This form can also be used where the whole estate is left to a charity with a charity reference number. However, it cannot be used for estates worth more than £1 million, even if there is no IHT to pay.
The form, together with notes on its completion is available on the Gov.uk website at: www.gov.uk/government/publications/inheritance-tax-return-of-estate-information-iht205-2011
The information can also be completed online.
There is no deadline for the submission of form IHT205.

**Form IHT217 – claim to transfer nil rate band for excepted estates**
The unused portion of the nil rate band on the death of the first spouse or civil partner can be transferred for use against the surviving spouse or civil partner's estate on their death. Where there is no tax to pay and form IHT205 has been completed, a claim to transfer the unused nil rate band should be made on form IHT217 and filed with form IHT205. Form IHT217 is available on the Gov.uk website at: www.gov.uk/government/publications/inheritance-tax-claim-to-transfer-unused-nil-rate-band-for-excepted-estates-iht217

**Form IHT400 – IHT to pay**
The full form, IHT400, should be used where there is inheritance tax to pay, or where the short form cannot be used as the estate is worth more than £1 million.
The form is available on the Gov.uk website, together with guidance notes on its completion, at: www.gov.uk/government/publications/inheritance-tax-inheritance-tax-account-iht400
There is a deadline for submitting the form – a year from the end of the month in which the person died. Penalties may be charged if the form is submitted late.

**Form IHT402 – claim to transfer unused nil rate band**
Where there is IHT to pay and the inheritance tax threshold is increased by transferring the unused portion for a late spouse or civil partner, form IHT402 should be used to work out the percentage and claim the transfer. Form IHT402, which is available on the Gov.uk website at www.gov.uk/government/publications/inheritance-tax-claim-to-transfer-unused-nil-rate-band-iht402, should be submitted with form IHT400.

**Form IHT207 – person who died lived abroad**
If the person who died lived abroad permanently and had less than £150,000 in UK assets (cash, bank accounts or listed stocks and shares), form IHT207 should be used rather than form IHT205 if there is no tax to pay. It is available on the Gov.uk website at: www.gov.uk/government/publications/inheritance-tax-return-of-estate-information-iht207-2006

***Quote of the month…***

"Never let the future disturb you. You will meet it, if you have to, with the same weapons of reason which today arm you agianest the present" - Marcus Aurelius - Roman Emperor.

## ISA round up

Individual Savings Accounts (ISAs) offer an opportunity to build up tax-free savings income, subject to certain limits. For those looking to put money away in an ISA in 2017/18, there are new limits and various different ISAs on offer.

**Cash ISA**
The simplest ISA is a cash ISA. Cash ISAs can be held with a bank or a building society and National Savings and Investments offer some cash ISA products. Interest paid on savings held within a cash ISA is tax-free.

**Stock and shares ISA**
Within a stocks and shares ISA, it is possible to hold shares in companies, unit trusts and investment funds, corporate bonds and Government bonds. However, it is not possible to transfer shares held outside an ISA into a stocks and shares ISA unless they come from an employee share scheme.
Income from, and capital gains on, investments held within a stocks and shares ISA are tax-free.

**Innovative finance ISA**
An innovative finance ISA can include peer-to-peer loans, although it is not possible to transfer peer-to-peer loans made outside an innovative finance ISA into such an ISA. Interest on loans within an innovative finance ISA is tax-free.

**ISA limit**
A single ISA limit applies to savings across cash, stocks and shares and innovative finance ISAs. The limit is set at £20,000 for 2017/18, increased from £15,240 for 2016/17. Savers can invest in one type of ISA up to the limit or split the limit across the different types of account.

**Junior ISA**
Junior ISAs are tax-free savings accounts for children available to those under the age of 18 and living in the UK. There are two types of Junior ISA – a cash Junior ISA and a stocks and shares Junior ISA. Interest, dividends and capital gains are tax-free. The investment limit is £4,128 for 2017/18, increased slightly from £4,080 for 2016/17.

**Lifetime ISA**
The Lifetime ISA is the latest addition to the ISA stable and is available from 6 April 2017. A Lifetime ISA can be opened by anyone under the age of 40. Once open, a person can save up to £4,000 a year up to age 50 and receive a Government bonus of 25% of the amount saved – up to £1,000 a year. However, a Lifetime ISA can only be used to save for a first home or for retirement, in which case the funds cannot be accessed until the saver turns 60. If the funds are withdrawn for any other purpose, the Government bonus is lost and charges are applied. Interest on savings within a Lifetime ISA are tax-free.

**Help to Buy ISA**
The Help-to-Buy ISA was launched to help first-time buyers save a deposit for their first home. Provided they save at least £1,600, they will receive a Government bonus of 25% of the amount

## Claiming back tax on a small pension lump sum

Where a pension lump sum is taken, it is possible that too much tax may have been paid. Where this is the case, a refund can be claimed. However, the mechanism for claiming the refund will depend on the nature of the lump sum. Normally, you can take 25% of your pension pot as a tax-free lump sum, with any balance taxable at the taxpayer's marginal rate.
Since 6 April 2015, it has been possible to flexibly access pension savings in defined contribution schemes on reaching age 55. Flexible access is not available in respect of defined benefit schemes.

Where the pension is worth not more than £10,000, it is usually possible to take the pension in one go as a `small pot' lump sum. A person can take up to three small pots from different personal pensions and unlimited small pots from different workplace pensions. Where a small pension pot lump sum is taken, 25% is tax-fee.

Since April 2015, only defined benefit schemes have been able to make trivial commutation payments – a payment as a lump sum where the value of the pension pot is less than £30,000. Small pension pot lump sums can be taken separately from any trivial commutation payment.

**Potential tax overpayment**
While the first 25% of the pension lump sum is tax free, the remainder is taxable at the taxpayer's marginal rate. Tax is deducted under PAYE on the pension payment, but often the code used is a basic rate (BR) code or an emergency code, and does not take account of the personal allowance or other income received. Consequently, the tax deducted may not match the amount actually due.

**Claiming a refund**
Where too much tax has been deducted, the refund mechanism depends on the circumstances:
Where the lump sum is from a defined contribution scheme, form P50Z should be used if the pension pot has been used up but the taxpayer has no other income in the tax year. However, if the pension has used the pension pot, but the taxpayer has other income in the tax year, form P53Z should be used.

If the lump sum has not used up the pension pot, regular payments are not being taken from the pension and the pension provider cannot refund the overpaid tax, a refund can be claimed on form P55.
Where the overpayment has arisen in respect of a trivial commutation lump sum, the refund can be claimed via the self-assessment tax return. If the taxpayer does not need to complete a tax return, form P53 can be used instead.

## MTD – Extending the cash basis

The cash basis is an easier way for smaller businesses to work out their taxable profit. Under the cash basis it is only necessary to take account of money in and money out. By contrast, under the traditional accruals method, income and expenditure is recorded when invoiced or billed.

Prior to 6 April 2017, the cash basis was only available to unincorporated business and partnerships (as long as partners are individuals) whose turnover was less than the VAT threshold - £83,000 from 1 April 2016, increasing to £85,000 from 1 April 2017.

**Higher threshold**

As part of the consultations on the Making Tax Digital reforms, the Government consulted on measures designed to simplify tax for unincorporated businesses. The measures included increasing the turnover threshold for the cash basis to make it accessible to more businesses.
Following the consultation, it was announced that the threshold will be increased to £150,000 from 6 April 2017. Once in the cash basis, businesses can remain in it as long as their profits do not exceed the exit threshold. This is set at double the cash basis threshold and consequently increases to £300,000 from 6 April 2017.

**Simplified rules**

Changes are also made to the cash basis rules, particularly in relation to the treatment of capital items. The general rule which prohibits a deduction for capital items in computing the profits of the business is replaced by a more limited disallowance for capital expenditure. Under the new rules, capital expenditure can be deducted in working out taxable profits unless the expenditure is incurred on or in relation to the acquisition or disposal of a business or in connection with the provision, alteration or disposal of:

- an asset that is not a depreciating asset (i.e. one with a useful life of more than 20 years);
- an asset that is not acquired or created for use on a continuing basis in the trade;
- a car;
- land;
- a non-qualifying intangible asset, including education and training; or
- a financial asset.

The new rules apply from 6 April 2017.

**Extension to landlords**
The availability of the cash basis is also extended to unincorporated property businesses from 6 April 2017 where the rental income of the property business (calculated according to cash basis rules) is not more than £150,000 a year. Where this is the case, the cash basis is the default basis and landlords within the cash basis threshold who want to use the accruals basis will now need to elect to do so

## MTD – Voluntary pay as you go

As well as the requirement to make a digital return and keep digital tax records, the Making Tax Digital (MTD) reforms introduce other changes to the way in which taxpayers interact with HMRC. One such change is the opportunity for taxpayers to make voluntary payments on account of their tax liabilities. Under the voluntary pay as you go (PAYG) proposals taxpayers will be able to, if they so choose, set aside money to pay their tax by making voluntary payments on account.

Some key points to note are:

- There will be no obligation to make PAYG payments.
- The payments will be flexible.
- HMRC claim the administration will be simple.
- Voluntary payments will be repayable.
- Payments and repayments will be made electronically.

**Making payments – taxpayer chooses**
It will be entirely up to the taxpayer to choose whether to make payments on account and if so when and how much to pay. There will be no deadlines, no requirements for voluntary payments to be made at a fixed time and no minimum payment.

**Allocation of voluntary payments – HMRC choose**
However, when it comes to deciding how voluntary payments are allocated, it is HMRC who decides rather than the taxpayer. The taxpayer pays into a pot and HMRC uses any money in the pot to pay liabilities as they become due. The argument for this is that HMRC can use the money in the way which best reduces any interest and penalties that a taxpayer may incur. However, this may not suit all taxpayers – some may wish to make payments on account towards their final self-assessment liability, but are happy to pay their VAT each quarter as it becomes due. Under the proposals as they currently stand this is not possible – payments can be made only against a taxpayer’s liabilities generally rather than set aside for a specific liability. Not everyone is happy with this.

**No interest**
Currently, there are no plans to pay interest on voluntary PAYG payments. Consequently, it may be better to open an interest-bearing account to save for future tax bills (particularly if giving an interest-free loan to the Exchequer does not appeal).

**Start date**
The plan is to roll-out voluntary PAYG with MTD, making it available to unincorporated businesses and landlords with a turnover above the VAT threshold from April 2018, when they are bought within MTD.

**A good idea**
The idea was well supported in principle and some taxpayers may like the idea of setting money aside to cover tax. There are alternatives, however, including the existing Budget Payment Plan.

## Compass welcomes Stacey's new arrival!

We are delighted to announce that Compass' very own, Stacey Leggatt has given birth to a beautiful baby girl!
Emilia Ivy Julie Leggett was born on Wednesday 15th March and weighed in at 6lb 15oz.

On behalf of the entire Compass team- congratulations to Stacey and Damien, we wish you a lifetime of joy and happiness as a new family!


## Compass Client to Cycle 100km for charity

Sam Morrison – the Director of Portchester Engineering- is saddling up for a 100 km (62 mile) cycle ride to raise money for Women V Cancer.

After being diagnosed with stage 3 breast cancer in October 2015, Sam underwent surgery and also had a course of chemotherapy and radiotherapy. Now fully on the road to recovery, Sam will be taking to the road with two friends, and participating with thousands of other women in the 'Ride the Night' cycle challenge.

Taking place 27th May, the ride follows a fantastic night-time route starting and finishing at Royal Windsor Racecourse and cycling past iconic London landmarks such as Buckingham Palace and The London Eye.
Women V Cancer is a special fundraising partnership between Breast Cancer Care, Ovarian Cancer Action and Jo's Cervical Cancer Trust. The cycle rides have previously raised over £7 million for the three charities.

All donations for Sam's cycle through the night are very much appreciated and will be gratefully received.
Sam's JustGiving page can be found here: https://www.justgiving.com/fundraising/Sammorrison74

**Best of luck from everyone at Compass Sam!**

# Tax Diary
# April/May 2017


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| **1 April 2017** | Due date for Corporation Tax for years ended 30 June 2016. |
| **19 April 2017** | PAYE and NIC deductions due for month ended 5 April 2017. (If you pay your tax electronically the due date is 22 April 2017) |
| **19 April 2017** | Filing deadline for the CIS300 monthly return for the month ended 5 April 2017. |
| **19 April 2017** | Due date for CIS tax deducted for the month ended 5 April 2017. |
| **1 May 2017** | Due date for Corporation Tax for years ended 31 July 2016. |
| **19 May 2017** | PAYE and NIC deductions due for month ended 5 May 2017. (If you pay your tax electronically the due date is 22 May 2017) |
| **19 May 2017** | Filing deadline for the CIS300 monthly return for the month ended 5 May 2017. |
| **19 May 2017** | Due date for CIS tax deducted for the month ended 5 May 2017. |

## 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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