Compass Accountants

Newsletter - August/September 16

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

TaxAngles - For proactive tax planning

In this month's edition…

Business and private use – what can you claim?

If you run your own business, you can deduct *allowable* expenses in working out your taxable profit. The general rule is that an expense is allowable if it is incurred wholly and exclusively for the purposes of the business. This rule is straightforward where an expense is incurred that relates solely to the business, as may be the case for office costs, staff costs, advertising etc., however, complications arise if an expense has both a business and a personal element.

Mixed use

Where something is used for both business and personal reasons, such as a mobile phone, you can only claim an expense deduction for the proportion that relates to the business.

Example

Mark is a self-employed carpenter. He has a mobile phone which he uses for both business and personal calls. For the tax year in question, his calls came to £360. Of his calls, 80% relate to business and 20% are personal. In computing the profits of his business, Mark can claim a deduction of £288 (80% of £360) in relation to his business phone calls.

Capital allowances

Where an asset, such as a car, is used for both business and private use, an apportionment calculation is also necessary for capital allowances purposes, too. Capital allowances are only available to the extent that the asset is used for the business.

Example

Lucy is self-employed and has a business making curtains. She bought a new car for £20,000, which she uses both for her business and for personal use. The car has CO2 emissions of 125g/km. Business use accounts for 60% of the use of the car.

As there is both private and business use of the car, it must be allocated to a single asset pool. Capital allowances are given at a rate of 18%. In year 1, capital allowances are £3,600 of which 40% is disallowed as relating to the private use. She is therefore entitled to capital allowances in year 1 of £2,160 (60% of £3,600).

Working from home

If your business is based at home, you can also claim a deduction for certain household expenses to the extent that they relate to the business. For example, it is possible to claim a deduction for a proportion of your electricity, gas, council tax, internet, telephone and cleaning costs. The expenses must be apportioned on a just and reasonable basis.

Simplified expenses

It is also possible to opt to use the simplified expenses to claim a deduction where home is used for work or for mileage costs (as long as capital allowances have not been claimed). This removes the need to keep detailed records of actual expenses and the extent of business use.

Quote of the month…

"So much of what we call management consists of making it difficult for our people to work" - Peter Drucker - Management Guru

Investor relief – what is it and how can you benefit?

At the time of the 2016 Budget, the then Chancellor, George Osborne, outlined details of a new capital gains tax relief for external investors in unlisted trading companies. The relief aims to attract new capital into unlisted companies.

Nature of the relief

The relief reduces the rate of capital gains tax applying to gains accruing where individuals who are not employees or officers of the company in which the shares are held dispose of certain qualifying shares. In order to be eligible for the reduced rate of capital gains tax, the share must meet certain conditions. These are that the share:

- must be newly issued – the person disposing of the share must have acquired it on subscription for new consideration;
- the share must be in either an unlisted trading company or in an unlisted holding company of a trading group;
- the share must have been issued on or after 17 March 2016 and have been held for a period of at least three years from April 2016 or later; and
- the shares must have been held continually for a period of three years prior to disposal.

Lower capital gains tax

Like entrepreneurs' relief, gains that qualify for the new investors' relief will be taxed at a rate of 10%, subject to a lifetime allowance of £10 million. This lifetime allowance is in addition to that available for entrepreneurs' relief purposes.

Example

On 28 March 2016, Billy invests £200,000 subscribing for newly issued shares in an unlisted trading company. He holds the shares for almost four years, disposing of them on 10 March 2020 for £500,000. He claims investors' relief on the gain.
Billy is a higher rate taxpayer. He has already utilised his annual exempt amount for 2019/20.

The conditions for investor relief are met. The gain of £300,000 (£500,000 - £200,000) is taxed at the rate applicable to investors' relief of 10%, generating a capital gains tax bill of £30,000.

Assuming the higher rate of capital gains tax for 2019/20 remains at the 2016/17 level of 20%, the availability of the relief saves Billy £30,000, as without the relief he would have paid capital gains tax of £60,000 (£300,000 @ 20%) on the gain.
Billy has used up £300,000 of his lifetime limit, leaving £9.7 million available for relief on future qualifying gains.

Beware anti-avoidance

Anti-avoidance provisions apply to ensure individuals subscribe for the shares for genuine commercial reasons rather than to avoid tax.

Pool cars – avoiding the pitfalls

While it is true that there is no benefit in kind tax charge on a pool car, it is frequently the case that the term is used loosely and the 'pool car' may not actually be a pool car at all in the taxman's eyes. To avoid triggering a benefits in kind tax charge in respect of a car referred to as a 'pool car', a number of fairly stringent conditions must be met.

Condition 1
The car was made available to, and *actually used by*, more than one employee.

Condition 2
The car was made available to each employee as a result of his or her employment.

Condition 3
The car was not ordinarily used by one of the employees to the exclusion of the others.

Condition 4
Any private use of the pool car by an employee was *merely incidental* to the employee's business use of the car. The taxman regards private use as being incidental to the business use if it results from the business use, for example taking the car home in the evening to leave early for a business trip in the morning. However, any independent private use will not be regarded as incidental to the business use and will jeopardise the pool car status.

Condition 5
The car is not normally kept overnight on or in the vicinity of any of the employee's homes (unless it is kept on the premises occupied by the person making the car available to the employees). The taxman regards the `not normally' test as being met if the car is taken home by employees on less than 60% of the nights in the review period. In applying this test, the taxman does not take into account why the car was taken home, just the frequency.

All or nothing
For the car to be a pool car, all five conditions must be met. If one or more conditions is not met, the car fails the pool car test and every employee who had private use of the car will be taxed on their private use.
Failing to apply the pool car test to the letter could prove costly, particularly if the pool car is an expensive model with high CO2 emissions.

No longer your main residence – are you claiming final period exemption?

While most people know that you do not have to pay capital gains tax on any profit you make on the sale of your main home, it is generally less well known that you can still benefit for the relief for the final period for which you own the property, even if it is not your main residence at that time.

Private residence relief – recap

The aim of private residence relief is to prevent a tax charge arising on any gain on the sale of the residence to the extent that it has been used as the owner's only or main residence throughout the period of ownership. Broadly, the portion of the gain that is exempt is determined by the proportion of the period of ownership for which the property has been used as the main residence. However, this rule is subject to adjustments, which can extend the scope of the exemption in certain circumstances. For example, letting relief may be available where a property which has been a main residence has been let out, or relief may be available for certain periods of absence.

Final period exemption

Where a property has been the taxpayer's main residence at some point during the period of residence, the final period of ownership falls within the scope of private residence relief. The final period exemption is designed to help a taxpayer who, perhaps, struggles to sell his or her old home and moves into a new residence before the sale of the old home has completed.

The period covered by the final period exemption is the last 18 months where the disposal takes place on or after 6 April 2014. However, a longer period of 36 months is exempt where the individual or the individual's spouse is disabled or a long-term resident in a care home, provided that neither the individual nor the individual's spouse has another main residence.

Where the disposal took place before 6 April 2014, the final period exemption is applied to the last 36 months of ownership.

Example

Ruth buys an old property. As she needs to do the property up before she can move in, she decides to keep her existing house until the renovations are complete. The work is finished in September 2015 and Ruth moves into her new home on 18 September 2015. The new home becomes her main residence.

Ruth puts her old house on the market. She finds a buyer in January 2016, however, the sale falls through. The property is finally sold in July 2016.

Ruth's old home has been her main residence from the date of acquisition until she moved into her new home in September 2015. Although she did not live in her old home for the ten-month period leading up to the sale in July 2016, the gain relating to this period is exempt as it falls within the final 18 months of ownership. Consequently, Ruth has no capital gains tax to pay on the sale of her old home.

Replacing your main residence - how do you get the SDLT supplement back?

Since 1 April 2016, higher rates of stamp duty land tax apply to purchases of second and subsequent residential properties where the cost of the additional property is over £40,000 (i.e. virtually all properties).

The higher rates are 3% more than the standard rates for residential sales and are as shown in the table below.

Purchase price	Standard rate	Additional properties
Up to £125,000	0%	3%
£125,001 to £250,000	2%	5%
£250,001 to £925,000	5%	8%
£925,001 to £1,500,000	8%	13%
Over £1,500,000	12%	15%

Replacing a main residence

The higher rates do not apply to the purchase of a property which is the replacement of a main residence, even if the taxpayer has additional residential properties. However, where the purchase of the new main residence happens before the sale of the old main residence, the higher rates are initially payable on the purchase of the new residence. However, the supplement can be reclaimed provided that the former main residence is disposed of within three years of the acquisition of the new residence.

Example

Julie and John are relocating. As they struggled to sell their existing home and were keen to be in their new home for the start of the new school year, they proceed with the purchase and sale independently. The purchase of their new home completes on 29 July 2016. The sale of the old home completes on 9 September 2016. They pay £450,000 for their new home.

As at the time of the purchase of the new home, they have an additional residential property, they must pay SDLT at the rates for additional residences. The SDLT paid is £26,000 ((£125,000 @ 3%) + (£125,000 @ 5%) + (£200,000 @ 8%)). This is equivalent to the SDLT at the standard rates of £12,500 ((£125,000 @ 0%) + (£125,000 @ 2%) + (£200,000 @ 5%)) plus a 3% supplement of £13,500 (£450,000 @ 3%)).

On the sale of their old main residence in September 2016 they can reclaim the supplement. The old residence is sold within the three-year window.

Reclaiming the supplement

A repayment of the SDLT supplement can be claimed where the former main residence is sold within three years of the purchase of the new home. The claim form can be found on the GOV.UK website at www.gov.uk/government/publications/stamp-duty-land-tax-apply-for-a-repayment-of-the-higher-rates-for-additional-properties. The following information is required:

- personal details;
- main buyer's details, if different;
- details of the property that attracted the higher rate of SDLT, including the effective date of the purchase and the SDLT Unique Transaction Reference number;
- details of the property sold;
- the amount of SDLT paid on the property that attracted the higher rates; and
- the amount of repayment claimed (i.e. the 3% supplement).

The claim form should be completed online and sent to HMRC at the following address:

HMRC Revenue and Customs – Birmingham Stamp Office

9th Floor
30 Union Street
Birmingham
B2 4AR

The SDLT supplement is not repaid automatically on the sale of the old home. It is therefore important that the need to claim a re-payment is not overlooked. Potentially, there is a lot of money at stake.

An amusing solution to our economic woes!

Dear Prime Minister May,

Please find below our suggestion for fixing the UK 's economy.

Instead of giving billions of pounds to banks that will squander the money on lavish parties and unearned bonuses, use the following plan.

You can call it the Patriotic Retirement Plan:

There are about 10 million people over 50 in the work force.

Pay them £1 million each severance for early retirement with the following stipulations:

1) They MUST retire
Ten million job openings - unemployment fixed

2) They MUST buy a new British car.
Ten million cars ordered - Car Industry fixed

3) They MUST either buy a house or pay off their mortgage - Housing Crisis fixed

4) They MUST send their kids to school/college/university - Crime rate fixed

5) They MUST buy £100 WORTH of alcohol/tobacco a week .....
And there's your money back in duty/tax etc

It can't get any easier than that!

P.S. If more money is needed, have all members of parliament pay back their falsely claimed expenses and second home allowances

If you think this would work, please forward to everyone you know.

Also.....
Let's put the pensioners in jail and the criminals in a nursing home.

This way the pensioners would have access to showers, hobbies and walks.

They'd receive unlimited free prescriptions, dental and medical treatment, wheelchairs etc. and they'd receive money instead of paying it out.

They would have constant video monitoring, so they could be helped instantly, if they fell, or needed assistance.

Bedding would be washed twice a week, and all clothing would be ironed and returned to them.

A guard would check on them every 20 minutes and bring their meals and snacks to their cell.

They would have family visits in a suite built for that purpose.

They would have access to a library, weight room, spiritual counselling, pool and education.

Simple clothing, shoes, slippers, PJ's and legal aid would be free, on request.

Private, secure rooms for all, with an exercise outdoor yard, with gardens.

Each senior could have a PC a TV radio and daily phone calls.

There would be a board of directors to hear complaints, and the guards would have a code of conduct
that would be strictly adhered to.

The criminals would get cold food, be left all alone and unsupervised. Lights off at 8 pm, and showers once a week. Live in a tiny room and pay £600.00 per week and have no hope of ever getting out.

Think about this (more points of contention):

COWS

Is it just me, or does anyone else find it amazing that during the mad cow epidemic our government could track a single cow, born in Appleby almost three years ago, right to the stall where she slept in the county of Cumbria?

And, they even tracked her calves to their stalls. But they are unable to locate 125,000 illegal immigrants wandering around our country. Maybe we should give each of them a cow.

Client Focus – Blue Lamp Trust

This month, we catch up with Jim Bettley, the General Manager of the charity The Blue Lamp Trust. . .

In 2010, The Blue Lamp Trust was established to promote and enhance safety in communities across Hampshire and the Isle of Wight. Since then the trust has successfully continued to provide this free of charge service – supporting people through the development of its Bobby Scheme, which helps to prevent crime and improve the safety of thousands of homes across the county. The scheme helps elderly and vulnerable people, enabling them to live independently with a sense of confidence and security in their own home.

In addition to this, The Blue Lamp Trust has become a leading provider of Driver Safety Training Courses. "Our Driver Training courses allow people and businesses to do many things, from lower risk and cost to reducing energy use." explains General Manager, Jim Bettley. "Last year we helped train the staff of a company that had experienced so many accidents, that it was virtually uninsurable. After training their drivers for a year we managed to, not only improve the situation, but actually help them significantly lower their insurance costs."

Our courses include taxi assessments, mini bus training, defensive driving, lorry driver accreditation, motorcycle training you name it we do it! We also provide the only Eco-Safe driving course fully approved by the Energy Saving Trust themselves."

The Blue Lamp Trust has kept abreast with modern technological advances and as a result, offers e-learning courses as well as more traditional classroom based courses. Looking to the future, the Trust is currently researching the utilisation of virtual reality technology to further enhance its training offering.

Jim continues, "In this modern age, people want to log-on and complete a course from their own devices, in their own locations, at their own convenience and so our e-learning training has become very popular. However, in my opinion, nothing beats hands-on-driving courses and technology will never replicate the variables you are exposed to when at the wheel."

Prior to his appointment as General Manager at The Blue Lamp Trust in 2014, Jim spent 33 years with the Hampshire Constabulary as Chief inspector and as a Forensic Crash Investigator.

"Most of our drivers are ex-blue lamp driver trainers and so they have delivered training of the highest level including pursuit and response training. We can certainly say that we have the highest qualified driver trainers in the country working with us."

Earlier this year, The Blue Lamp Trust became a Compass client, as Jim explains: "Compass Accountants came highly recommended by one our trustees, and so when it was time to appoint a new accountant they were our first choice. So far we have been very impressed. They have just completed our annual return which all ran very smoothly. In fact, it was a lot less stressful than last year. We are looking forward to continuing our work with them!"

If you would like to find out more about the Blue Lamp Trust, its driving training, the Bobby Scheme or any other of its services, visit: www.bluelamptrust.org.uk

Tax Diary
August/September 2016

1 August 2016	Due date for Corporation Tax for years ended 31 October 2015.
19 August 2016	PAYE and NIC deductions due for month ended 5 August 2016. (If you pay your tax electronically the due date is 22 August 2016)
19 August 2016	Filing deadline for the CIS300 monthly return for the month ended 5 August 2016.
19 August 2016	Due date for CIS tax deducted for the month ended 5 August 2016.
1 September 2016	Due date for Corporation Tax for years ended 30 November 2015.
19 September 2016	PAYE and NIC deductions due for month ended 5 September 2016. (If you pay your tax electronically the due date is 22 September 2016)
19 September 2016	Filing deadline for the CIS300 monthly return for the month ended 5 September 2016.
19 September 2016	Due date for CIS tax deducted for the month ended 5 September 2016.

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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