Compass Accountants

Newsletter - December 15/January 16

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
- Tax-free Mileage Payments
- Deferring Capital Gains Tax
- Qualifying for Entrepreneur's Relief
- Main Residence Relief and Capital Gains Tax
- Keeping the Personal Allowance
- Client Focus - Wananchi
- Autumn Statement

Tax-Free Mileage Payments

Many employees use their own vehicles for business journeys. Under the approved mileage allowance payments (AMAP) scheme, employers can make tax-free and hassle-free payments to employees for business journeys, as long as the payment does not exceed the approved amount.

What is the approved amount?

The approved amount is simply the number of business miles that the employee undertakes in his or her own vehicle in the tax year, multiplied by the AMAP rate for that type of vehicle for the tax year in question. The AMAP rates are as follows:

Type of vehicle	Rate per business mile
Cars and vans	First 10,000 business miles in the tax year: 45p per mile Subsequent business miles: 25p per mile
Motorcycles	24p per mile
Bicycles	20p per mile

Example

Jane uses her own car for business and in 2015/16 drives 12,000 business miles. The approved amount is:

(10,000 miles @ 45p per mile) + (2,000 miles @ 25p per mile) = £5,000.

Jane's employer can pay her a mileage allowance of up to £5,000 tax-free.

If the amount paid does not exceed the approved amount, the employer does not need to report the mileage payment to HMRC.

Amounts in excess of approved amount

If the amount paid exceeds the approved amount, the excess over the approved amount is taxable. So, if Jane's employer had paid her 50p per mile, she would have received mileage payments totalling £6,000 in 2015/16 (12,000 miles @ 50p per mile). The £1,000 by which this exceeds the approved amount of £5,000 is taxable and must be returned on Jane's P11D (in section E).

Mileage relief

If the amount paid is less than the approved amount, the employee can claim tax relief (either on form P87 or via the self-assessment return) for the shortfall. A claim can also be made if the employer does not make mileage payments.

So, if Jane's employer had paid a mileage rate of 35p per mile, Jane would have received £4,200 in mileage payments in 2015/16 (12,000 miles @ 35p per mile). This is £800 less than the approved amount of £5,000 and Jane can claim tax relief for the £800 shortfall.

Different rules for NIC

A similar system applies for National Insurance purposes. However, the 45p per mile rate for cars and vans applies without limit. Unlike tax, it is not capped at 10,000 business miles per year.

Not for company cars

The AMAP scheme only applies where the employee uses his or her own vehicle. It cannot be used where the employee drives a company car. Separate rates (advisory fuel rates) are used for company car drivers.

Quote of the month…

"There is nothing quite so useless as doing with great efficiency something that should not be done at all" - Peter Drucker - Management Guru.

Deferring Capital Gains Tax

Business asset rollover relief allows you to defer the capital gains tax payable where there is a gain on the disposal of business, if the proceeds are reinvested (rolled-over) in buying replacement assets. The tax bill is delayed until the new assets are sold.

Conditions

For business rollover relief to be available, certain conditions must be met. The new assets must be purchased within three years of the sale of the old asset. The relief is also available if the new asset is purchased up to one year before. This is helpful where the business is replacing a key business asset and needs to buy the replacement asset before it can get rid of the old one. In addition, the business must be trading when both the old asset is sold and the new asset is purchased and both the old asset and the new asset must be used in the business. Business asset rollover relief is also available if you a running a furnished holiday letting's business.

Qualifying assets

Relief is available for a wide range of assets. Both the old and the new asset must be on the following list:

- interests in buildings or parts of buildings;
- interests in land;
- fixed plant and machinery;
- ships, aircraft, hovercraft, satellites, space stations and space crafts;
- goodwill;
- milk, potato, ewe or suckler cow premium quotas;
- fish quotas;
- payment entitlements under the single payment scheme; or
- Lloyd's syndicate capacities.

Nature of the relief

The relief works by reducing the base cost of the new asset by the rolled over gain. The effect of this is to delay the tax on the gain of the old asset until the sale of the new asset. The gain on the sale of the new asset will effectively comprise the gain on the old asset plus the gain on the new asset.

Example

Harry buys a shop for £200,000. Ten years later he sells it for £300,000, reinvesting the proceeds in a new shop which costs £350,000. He claims business rollover relief. Five years later he sells the new shop for £425,000.

The gain on the sale of the first shop is £100,000 (£300,000 - £200,000). As he claims business asset rollover relief, this is not immediately taxable. Instead the base cost of the new shop is reduced by the rolled over gain. The base cost of the new shop is therefore £250,000 (actual cost of £350,000 less than rolled over gain of £100,000). When the new shop is sold, the chargeable gain of £175,000 (£425,000 - £250,000) is taxable. This is effectively the gain of £75,000 on the new shop (£425,000 - £350,000) plus the rolled over gain (of £100,000) on the old shop.

Partial relief

Partial relief may be available where only some of the proceeds are reinvested in the new asset or where the old assets were only partly used in the business. Partial relief is also available where the proceeds are reinvested in depreciating assets.

Making a claim

The relief must be claimed by filling in the form at the end of HMRC Helpsheet HS290 and submitting it with your self-assessment return.

Qualifying For Entrepreneur's Relief

Entrepreneurs' relief is a very valuable relief that can significantly reduce the capital gains tax payable when you dispose of all or part of your business. However, availability of the relief is contingent on certain conditions being met throughout a qualifying period, which is normally the 12 months prior to the disposal or date on which the business ceased. This means it is essential to plan ahead.

What qualifies?

Entrepreneurs' relief may be available in respect of the following:

- the disposal of all or part of a business, which you operated as a sole trader, or as a partnership in which you were a member;
- the disposal of assets following cessation of a business, which you operated as a sole trader, or as a partnership in which you were a member. In this instance the date the assets are disposed of must not be more than three years after the date on which the business ceased;
- a disposal of shares in your personal company – i.e. a company in which you have at least 5% of the shares and 5% of the voting rights; or
- an associated disposal, such as the disposal of assets owned by you personally, which you lent to the business.

Goodwill problem

For disposal after 3 December 2014 entrepreneurs' relief is not available in respect of internally generated goodwill if you dispose of your business to a close company in which you or a near relative is a participator.

Qualifying conditions

The precise conditions depend on the nature of the disposal and it is advisable to take professional advice in advance to ensure the conditions are met.

Deferring Capital Gains Tax (continued)

In respect of a disposal of all or part of your business, to qualify for entrepreneurs' relief you must operate the business either as a sole trader or as a partnership in which you are a partner. In addition, you must have owned the business for at least 12 months prior to the date on which you sell it or close it down. Further, if you sell the business assets after cessation, the disposal of the business assets must take place within the three-year period following the date of cessation. If you are selling assets you lend to a business, the assets must have been used by the business for at least a year up to the date on which you sold the business or your shares in it.

Where the disposal is a disposal of shares in your personal company, the following conditions must be met for a year before the date on which the shares are sold:

- you must own at least 5% of the shares and 5% of the voting rights;
- you are an employee or director of the company (or of another company in the same group); and
- the company is a trading company.

Impact of the relief

Where the conditions are met, capital gains are taxed at a preferential rate of 10% (rather than 18% or 28%) on gains up to the lifetime limit, which has been set £10 million for disposal on or after 6 April 2011. Each spouse or civil partner has their own limit.

Claims

The relief must be claimed by the anniversary of the 31 January following the end of the tax year in which the disposal took place (so for disposals in 2015/16, the deadline is 31 January 2018). Claims can be made in the self-assessment tax return or on the dedicated claim form.

Main Residence Relief & Capital Gains Tax

The concept that you can sell your home without paying tax on any profit that you make is well-known. However, the position becomes slightly more complicated if you have more than one property, if you also use your home for business purposes, or if you have let it out at some point during the period that you have owned it.

Full relief is available if you have owned your home and lived in it as your main residence throughout the period you have owned it. The relief extends to the grounds and any buildings in the grounds as long as these are not more than 5,000 square metres. If the grounds exceed this, they may still be eligible for the relief if they are reasonable for the enjoyment of the property.

Spouses and civil partners – only one main residence

Married couples and civil partners are only entitled to one main residence between them for the purposes of the relief.

More than one property

If you have more than one property in which you live as a home, for example a city flat that you live in during the week and a family home in the country, you can choose which property is your main residence for the purpose of the relief. It is not only MPs who can take advantage of flipping to secure the best capital gains tax position. You must nominate which property is your main property within two years of the date on which your combination of homes changes by writing to HMRC.

Business use

If you use part of your home exclusively for business, that part is not eligible for main residence relief and any gain on sale must be apportioned between the business and non-business parts of the property. This restriction can be overcome by not using any rooms exclusively for business, for example using a room for business during the day and homework in the evening. If this cannot be avoided, any gain arising on the business part may well be sheltered by the annual capital gains tax exempt amount (£11,100 for 2015/16).

Letting it out

In most cases, if you let your home out during the period of ownership, only partial relief will be available as the let period will not qualify for main residence relief. Where the property has been lived in as your main residence at some point, a separate relief, lettings relief, may be available to reduce any chargeable gain. The chargeable period will also be reduced by the final period exemption.

Last 18 months

Where a property has at some point been the taxpayer's only or main residence, the gain relating to the last 18 months of ownership is always exempt,

Keeping The Personal Allowance

High earners may find that they lose their personal allowance. This may land them with an unexpected tax bill if their earnings for a tax year are higher than expected (for example as a result of a surprise bonus payment) and the personal allowance is included in their tax code.

Abatement of the personal allowance

The basic personal allowance for 2015/16 is £10,600. However, this is reduced by £1 for every £2 by which income exceeds £100,000. The measure of income for these purposes is `adjusted net income'.

This means that anyone who has adjusted net income of £121,200 or above will not have a personal allowance for 2015/16.

Avoid the abatement zone

Where income falls in the abatement zone, i.e. between £100,000 and £121,200 for 2015/16, the marginal rate of tax is a very high 60%. This is the usual 40% rate plus the impact of the loss of the personal allowance.

The maths

The slice of income between £121,200 (the level at which the personal allowance is fully lost) and £100,000 (the level above which abatement starts) is £21,200.

Tax at 40% on this band is £8,480 (£21,200 @ 40%).

The personal allowance is £10,600. Losing the allowance means that the taxpayer pays tax on a further £10,600 @ 40% = £4,240.

The total tax hit on this slice of income is £12,720 (£8,480 plus £4,240), which is a whopping 60% of £21,200. Thus the effective marginal rate of tax in the abatement zone is 60%.

Reduce income to preserve the personal allowance

Reducing income to below £100,000 will mean that the personal allowance is not lost and the horrendous 60% effective tax rate is avoided. There are various ways this can be achieved:

- Transferring income-producing assets to a spouse or civil partner – for example, for a taxpayer with significant dividend or savings income, transferring the shares or savings to a lower earnings spouse or civil partner will save tax and help retain the personal allowance.
- Delaying dividend payments –deferring dividend income to a later tax year can be beneficial if it helps keep income in the current year below the abatement zone. A similar strategy can be adopted in relation to bonus payments.
- Make pension payments - adjusted net income can be reduced by making pension contributions, which is in itself beneficial due to the higher rate relief available on contributions up to the available annual allowance.
- Charitable donations – making charitable donations will also reduce adjusted net income (although the individual loses the benefit of that income).

Client Focus – Wananchi
Malcolm Padwick, Director and Founder

This month, we catch up with Malcolm Padwick, the founder of Wananchi an organisation that develops innovative mobile water purification systems hear about how the groundbreaking product was developed…

Back in 2008, Malcolm Padwick had a 'eureka' moment that resulted in the development of his first mobile water purification system and the birth of his business Wananchi Ltd. At the time, Malcolm was employed in South Sudan; working on a village water purification project, located on the edge of the river Nile, for a South African organisation.

Whilst working on this project Malcolm lived with mine clearance teams, and in conversation discovered that they were regularly flying in bottled water from a neighbouring country. Malcolm learnt that this water was arriving at the cost of $3 per litre which made him consider a solution to the costly import process which was a clearly a global problem. That evening, Malcolm drew a plan out of what would become the first design of the Wananchi prototype.

“I sketched out an idea for a system that would allow the user to purify the water at the source, to eliminate having to import it at inflated costs.” explains Malcolm. “As soon as I returned to the UK, I began work on developing the system. I registered Wananchi (a Swahili word meaning `for the people`) as a company, and then put everything into the design and build of the first prototypes. To fund the business at the early stages, I temporarily lived in a caravan and earned a living/survival wage working as security at a local nightclub.”

Client Focus – Wananchi (continued)

Since launching the company the prototype has undergone many levels of development. The final product is a self-contained, portable device that can purify up to 2,000 litres of water on a single battery change. This means water doesn't have to be imported, carried around or transported across land by lorry- instead it is purified at its source, on the spot.

Since developing the brand and fully establishing Wananchi in 2010, three core markets have been identified military, commercial and humanitarian (or emergency). The military market has by far been the most successful. The combat water supply chain in a military war environment incurs massive cost, uses up valuable man power and equipment to protect the water -and furthermore, it puts extra risk into an obviously already, high risk environment.

"I wanted to make a highly efficient and easy to use system." explains Malcolm. "Using the Wananchi system is simple you connect the single red hose and place into the source water, switch on the device, and then the blue hose dispenses clean, potable water it really is that simple. There are no complicated instructions - it is as straightforward and effective as it could be."

Whilst there are a few water purification systems on the market, Wananchi is the leader in terms of its ease of use. "Most of our competitors' products are cumbersome, they are complicated have many components and pipes, making them vulnerable and therefore easily broken. The Wananchi system however, is easy to use, robust and virtually unbreakable. " says Malcolm.
The robustness of the system is one of the reasons why Wananchi has had so much interest from the military market, with an impressive sales pipeline that ranges from the British Army, Belgian Army, Italian Airforce, Mauritanian Army, Italian Army, Vietnamese Army and Bangladesh Border Guard.

The system has also seen interest from organisers of expeditions for commercial activities, where people are working in remote areas where there is great need for water.

To take the business to the next stage Malcolm is in the process of seeking investors in Wananchi. "We are now looking for the second round of investment to develop our team, increase our marketing efforts and enhance our ability to cope with some of the pending orders of various international military organisations. The business has huge potential and is likely to expand at a very fast pace."

Wananchi is based in The Tanneries in Titchfield, alongside the Compass Accountants' office. Malcolm explains, "It's great to be located so closely to Compass. As neighbours we chose to use their services as soon as we arrived, and they helped Wananchi to become fully established. They have always gone above and beyond their services and constantly keep our business in mind."

"A good example of this is when Jeff Walton of Compass, arranged a networking meeting with an organisation that is now actually a partner of ours. This introduction created an opportunity for us that we are still very grateful for. Compass are always there to help and will proactively look for ways for Wananchi to improve. I always recommend them highly as an accountancy firm."

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Autumn Statement 2015

Please visit our website (www.compassaccountants.co.uk) and follow the links for Autumn Statement 2015 in the news area to access our comprehensive report.

Tax Diary
December 2015/January 2016

1 December 2015	-	Due date for Corporation Tax due for the year ended 28 February 2015.
19 December 2015	-	PAYE and NIC deductions due for month ended 5 December 2015. (If you pay your tax electronically the due date is 22 December 2015.)
19 December 2015	-	Filing deadline for the CIS300 monthly return for the month ended 5 December 2015.
19 December 2015	-	CIS tax deducted for the month ended 5 December 2015 is payable by today.
30 December 2015	-	Deadline for filing 2014-15 Self Assessment online to include a claim for under payments (under £3,000) be collected via tax code in 2016-17.
1 January 2016	-	Due date for Corporation Tax due for the year ended 31 March 2015.
19 January 2016	-	PAYE and NIC deductions due for month ended 5 January 2016. (If you pay your tax electronically the due date is 22 January 2016.)
19 January 2016	-	Filing deadline for the CIS300 monthly return for the month ended 5 January 2016.
19 January 2016	-	CIS tax deducted for the month ended 5 January 2016 is payable by today.
31 January 2016	-	Last day to file 2014-15 Self Assessment tax returns online.
31 January 2016	-	Balance of Self Assessment tax owing for 2014-15 due to be settled today. Also first payment on account for 2015-16 due today.

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 Jeff Walton on 01329 844145.

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