Compass Accountants

Newsletter - December 16/January 17

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

TaxAngles - For proactive tax planning

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New Lifetime ISA – earn up to £1,000 a year

Plans to introduce a new Lifetime ISA were unveiled in the 2016 Budget. The Lifetime ISA will be available from April 2017. It can be used either to save for a deposit for a first home or to save for retirement.

Who can open one?

A Lifetime ISA can be opened by anyone between the ages of 18 and 40. The procedure for opening a Lifetime ISA will be similar to that for existing ISAs. Savings into a Lifetime ISA will count towards the overall ISA limit for the year.

Government bonus

Sums saved in the account before the saver's 50th birthday will earn a Government bonus of 25% of the amount saved. The Government bonus will be paid on savings of up to £4,000 a year, making it possible to earn up to £1,000 a year by investing in a Lifetime ISA. The bonus will be paid at the end of each tax year.

Save for your first home

The Lifetime ISA can only be used to save for a deposit on a first home or to save for retirement. However, a person must hold the Lifetime ISA for at least 12 months before they can make withdrawals that include the Government bonus. The savings, together with the Government bonus, can be put towards the purchase of a house in the UK costing up to £450,000. Where a house is purchased jointly, each purchaser can use savings from a Lifetime ISA, together with the Government bonus.

Where a person already has a Help-to-Buy ISA, they can either keep it and use it to save for a first home or transfer it into a Lifetime ISA. It is possible to have both a Help-to-Buy ISA and a Lifetime ISA, but only the Government bonus from one of the accounts can be used to buy the first home.

Trap

The bonus is only available to first time buyers.

Save for retirement – and earn a bonus of up to £32,000

The other purpose of the Lifetime ISA is to save for retirement. A person who saves £4,000 a year from age 18 to age 50 will accrue savings of £128,000 (before interest) and earn a Government bonus of £32,000, giving them a savings pot of £160,000 (plus interest). The savings and the Government bonus can be withdrawn from age 60.

Beware other withdrawals

The aim of the Lifetime ISA is to encourage long-term saving for specified purposes. Although individuals will not be prohibited from making withdrawals for other purposes, they will lose the Government bonus on any withdrawals that they make for other purposes. In addition, they will suffer a 5% charge. So, if you save £100 either towards a first home or retirement, that £100 will be worth £125 (plus interest). However, if you use the savings for other purposes, be warned, you will only get £95 of your initial £100 back (plus any interest earned).

Practical tip

Use a Help to Buy ISA for your first home and the Lifetime ISA to save for retirement. For other savings, choose a different account.

Quote of the month…

"For millions of years, mankind lived just like the animals. Then something happened which unleashed the power of our imagination. We learned to talk and we learned to listen. Speech has allowed the communication of ideas, enabling human beings to work together to build the impossible. Mankind's greatest achievements have come about by talking, and its greatest failures by not talking. It doesn't have to be like this. Our greatest hopes could become reality in the future. With the technology at our disposal, the possibilities are unbounded. All we need to do is make sure we keep talking." - Stephen Hawkins

Owe tax to HMRC?

Taxpayers who have not told HMRC about all their income and gains can make a disclosure online. It is always better to tell HMRC rather than waiting for HMRC to come to you. Even with the best of intentions, it is easy to make mistakes.

HMRC run various campaigns which encourage people to get their tax affairs up to date in return for more favourable terms.

Let property campaign

The let property campaign is open to all residential landlords with undisclosed taxes. This may include:

- landlords with multiple properties;
- landlords with single rentals;
- specialist landlords letting property to a particular type of tenant, such as student lets;
- holiday lettings;
- individuals renting out a room in their home under the rent-a-room scheme.

Those who rent out their home while abroad may also be able to use the scheme.

Credit card sales campaign

The credit card sales campaign is a settlement opportunity for individuals and companies who accept credit and debit cards and who have not reported credit and debit card transactions on a tax return. Reduced penalties are offered in return for making a disclosure under the scheme.

Second incomes campaign

The second incomes campaign is aimed at employed individuals who have additional income which is not taxed through PAYE and which has not been declared to HMRC. Taxpayers making a disclosure under the scheme benefit from reduced penalties.

Making a disclosure

An individual who wishes to take advantage of a campaign to tell HMRC about undeclared income and gains, must follow the following procedure:

Step 1: notify
The first step is notify HMRC of the intention to make a disclosure under the campaign. This can be done either by filling in the notification form or by calling the relevant campaign helpline. The taxpayer will be given a disclosure reference number (DRN).

Step 2: disclose
Once HMRC have been notified of the intention to make a disclosure under the campaign, the next stage is to make the disclosure. The disclosure must be made within 90 days of the date on which the notification acknowledgement is received. The DRN must be quoted.

Step 3: declaration
Once the disclosure is complete, the taxpayer must then complete the declaration. This is an important part of the disclosure and should be taken seriously.

Step 4: offer
The taxpayer must make an offer for the full amount owed. The offer, together with HMRC's acceptance letter, creates a legally binding contract between the taxpayer and HMRC. Letters of offer are included in the disclosure forms, which the landlord or his or her agent must complete.

Step 5: acceptance
HMRC will review the disclosure and if they decide to accept it, an acceptance letter will be sent. In some cases they will undertake further enquiries. It is advisable to co-operate as this will ensure the best possible outcome in terms of penalties.

Step 6: payment
Unless HMRC have granted additional time to pay, payment should be made within 90 days of the deadline given on the notification acknowledgement letter.
The Payment Reference Number (PRN) should be quoted when making the payment.

No campaign

A taxpayer can also make a disclosure to HMRC outside a particular campaign. The disclosure can be made online using the relevant form.

Lettings relief

Lettings relief increases the amount of the gain that is sheltered from capital gains tax when you sell a property which has at some time been your only or main residence, and in respect of which some private residence relief is due.

Private residence relief (PPR) is available on the disposal of a property that has been used as the owner's only or main residence at some point during the period of ownership. If the property has been the only or main residence throughout the whole period of ownership, there is no capital gains tax to pay – the full amount of the gain is eligible for the relief. However, if the property has been used for business or let out for some of the period of ownership, part of the gain will be taxable. However, if some PRR is due, the gain relating to the last 18 months of ownership is exempt.

Nature of lettings relief

Lettings relief provides an element of additional relief where part of the gain on the disposal of a residential property is taxable because the property has been let out during the period of ownership. The relief is only available if the property has at some point been the only or main residence and private residence relief is available in respect of part of the gain.

Lettings relief (continued)

The amount of lettings relief is the lowest of:

- the amount of private residence relief;
- £40,000; and
- the amount of the gain that is chargeable by reason of the letting.

Example

David bought a flat on 1 September 2006 for £200,000. He lives in it as his main home for three years. He then moved in with his girlfriend, letting out the flat for seven years until he sold it on 31 August 2016 for £305,000. Costs of acquisition and sale were £5,000.

Before taking account of any available reliefs, David realises a gain of £100,000 (£305,000 – (£200,000 + £5,000)).
The property was David's only or main residence for 3 years and qualifies for private residence relief for this period. Further, the last 18 months of ownership are also exempt, bringing the total period qualifying for private residence relief to four and half years.

The gain eligible for PPR is therefore £45,000 (£100,000 x 4.5/10).

The remaining gain of £55,000 is attributable to the letting and does not qualify for private residence relief.

However, lettings relief is available. The amount of the relief is the lowest of:

- the gain qualifying for private residence relief, i.e. £45,000;
- £40,000; and
- the gain attributable to the letting, i.e. £55,000.

Letting relief is therefore £40,000.

The computation of the gain is as follows:

	£	£
Sale proceeds	305,000	
Less: cost of property	£200,000	
costs of acquisition and sale		£5,000
		(£205,000)
		£100,000
Less: private residence relief		
(3 years plus last 18 months)		(£45,000)
Gain attributable to letting		£55,000
Less: lettings relief		(£40,000)
Chargeable gain		£15,000

Although the property was let for seven years, the availability of lettings relief reduces the chargeable gain to £15,000.

Double the relief

Although married couples and civil partners can only have one main residence between them for PPR purposes, each individual is entitled to lettings relief in respect of their share of the gain – doubling the potential letting relief available for spouses or civil partners to £80,000.

Age 55 plus – unlock your pension

Changes were introduced with effect from April 2015, which provide those aged 55 plus with greater access to their pension savings. Where an individual has a defined contribution (money purchase) scheme, it is no longer necessary to purchase an annuity with the pension pot. Further, withdrawals in excess of the tax-free lump sum are taxed at the individual's marginal rate of tax rather than at the punitive rate of 55% that applied prior to 6 April 2015.

Options

Once you reach age 55, there are various options available for your defined contribution pension pot:

- leave it where it is;
- invest in an annuity;
- take a flexible income;
- cash in the whole pot; or
- mix and match from the above.

Take it later

Although it is now possible to access pension savings at age 55, this is not the best option for everyone. It may suit you better, particularly if you are still working, to leave it where it is and to continue to invest so that you have a larger pot available to take later.

Age 55 plus – unlock your pension (continued)

Tax-free lump sum
Once you have reached age 55 you can take 25% of your pension pot as a tax-free lump sum. Amounts in excess of the tax-free lump sum are taxed at the individual's marginal rate of tax.

Annuity
It is no longer compulsory to use pension savings to buy an annuity, but those looking to secure an income in retirement may wish to invest some or all of the pension pot in an annuity. Financial advice should be sought to ensure that you purchase the right annuity for your personal circumstances.

Drawdown
If you want a flexible income in retirement you can opt for one of the drawdown options. This option allows you to take cash from your pension pot as you need it and can be achieved in one of two ways. The first option is to take the 25% tax-free lump sum in one chunk and then take the remainder of the pension pot as regular or irregular cash sums or as a one-off payment.

Once the lump sum has been taken, the further withdrawals are taxed at the individual's marginal rate of tax.

The annual allowance drops to £10,000 once the first payment in excess of the tax-free lump sum is taken. If only the tax-free lump sum is withdrawn, the allowance remains at £40,000.

The alternative is to take smaller sums (uncrystallised fund pension lump sum). Under this approach, the first 25% of each withdrawal is tax-free and the balance is taxed at the individual's marginal rate of tax. The annual allowance drops to £10,000 as soon as a withdrawal is made.

The annual allowance where a pension has been drawn down is to drop to £4,000 from April 2017.

Taking it all out
There is nothing to stop you withdrawing you pension pot at age 55 and splurging the lot. The first 25% is tax-free and the remainder taxed at your marginal rate. But remember, you may need an income to fund your life into your eighties and beyond.

Mix and match
Depending on the scheme rules, you could take some for a holiday of a lifetime, invest some in an annuity and leave the rest where it is.

Beware scams
Schemes that offer to unlock your pension before age 55 should be avoided at all cost. You will trigger punitive tax charges which will drastically reduce your pension pot.

Avoid a penalty for late filing - File your tax return on time

The deadline for filing the 2015/16 self-assessment online is 31 January 2017. It is important that this deadline is not missed because if you miss it, even by one day, you will have to pay a late filing penalty of £100. The penalty applies irrespective of whether you owe any tax – it is a fine for not filing your tax return online.

Paper returns
The deadline for filing a paper return for 2015/16 has passed – paper returns had to be with HMRC by 31 October 2016. If you have missed this deadline, you can avoid a penalty by filing online by 31 January 2017. If you have not filed online before, you will need to register first (see www.gov.uk/log-in-register-hmrc-online-services). However, if you file a paper return after 31 October 2016, you will suffer a £100 late filing penalty, even if the return is filed by the online filing deadline of 21 January 2017.

Tip
If you have not filed a return by 31 October 2016, the 2015/16 self-assessment return must be filed online by 31 January 2017 to avoid a penalty.

File by 30 December to code out underpayment
If you have a tax underpayment of £3,000 or less, you can opt to have it collected through PAYE via an adjustment to your tax code. However, there is a catch – this option is only available if you file your tax return online by 30 December 2016.

Tip
If you owe less than £3,000 and want it collected via PAYE, don't leave it until the last minute to do your tax return. You must file it by 30 December 2016 to take advantage of this option.

Already late – file by 1 May to avoid higher penalties
If you miss the 31 January 2017 deadline, you then have a three-month window to get your house in order before the penalties start to rack up. If your return still hasn't been filed by 1 May 2017, you will be charged a penalty of £10 per day until your return is filed for the next 90 days – a maximum of £900. This means that if you have not filed your return by 29 July 2017, you will be charged a penalty of £1,000.

More delays = higher penalty
Further penalties are triggered if the return is outstanding at six-months and 12-months after the due date. At each point, the penalty is £300 or 5% of the outstanding, whichever is higher. Filing six months late could cost at least £1,300 in penalties, delay another three months and the total will rise to at least £1,600.

Avoid a penalty for late filing - File your tax return on time (continued)

Late notice to file a return = later deadline
If you receive a notice to file your tax return less than three months before the filing deadline, a later deadline of three months from the date of the notice to file the return applies.

Pay late = more interest and penalties
If you pay your tax late as well as filing your return late, you will also run up interest and penalties on the late paid tax.

Practical tip
Putting off filing your tax return can be costly, with penalties of at least £1,300 where the return is filed late. Making sure your return is filed on time will save you from having to pay penalties unnecessarily.

Time to change those old energy hungry lights in your workplace.

For the next two years, the Carbon Trust is providing an attractive and accessible support package to help small and medium sized companies in England, Wales and Scotland identify energy saving opportunities and install energy efficient equipment in their business.

- **A financial contribution towards your energy saving equipment**
  The Carbon Trust Green Business Fund is offering up to 30% of the project cost, up to £10,000*, to small and medium sized businesses for projects that comply with the requirements of the fund.
- **Energy opportunity assessment**
  The Carbon Trust are offering funded energy saving opportunity assessments to SMEs to help them identify energy savings and equipment you could install to achieve these savings.
- **Implementation support**
  The Trust will help you to find equipment suppliers who can provide detailed quotes and who have a track record of delivering energy saving projects.
- **Expert workshops**
  A series of workshops are scheduled to help small businesses work out how best to identify and implement the energy saving opportunities available to them.

Apply now - this support is available for a limited period on a first come, first served basis, aimed at small and medium sized businesses in England, Scotland and Wales.

How to find out more and make an application

To discuss how your business could benefit from the support on offer, or if you have any questions about the Green Business Fund please visit www.carbontrust.com/greenbusiness, or email greenbusiness@carbontrust.com or call us on 020 7832 4773 to speak to one of our advisors.

Making the new Employee Feel This is a Good Place to Work

Your new employee is waiting in reception on their first day working for you. They are keen, but almost certainly nervous. They have committed the next part of their working life and career to your organisation. They may have left behind a job where they felt comfortable and competent. They are looking forward to and expecting a positive experience with your organisation. And yet, how often the transition to a new organisation is not smooth and trouble free.

Jim Gilhooley provides some tips of how to achieve an effective integration process.

Integration, induction and communication
If done badly, this could completely undermine the employment relationship The good news is that it is relatively easy to do well.

Key requirements are:

- First impressions really do count. At one of my previous jobs, I arrived full of anticipation only to find that the whole of the HR Department had been called into a meeting. I was asked to sit in an office and read a file until they came back two hours later. As obvious as it seems, make new employees feel welcome. Don't just agree a start date and then forget about them until they turn up. Keep in communication with them during the time they are leaving their previous job to make them feel wanted and important.
- Have an introduction plan, not just a basic induction plan. All the basic first day induction stuff is important (e.g health and safety, personal details forms, desk etc) but ensure they meet the people who will be essential for success and support in their new job. Stagger this over a few days or a few weeks. This will include their immediate team but others in the organisation who they will have working relationships with.
- Have a clear plan of work and achievable objectives for them to focus on in the first few weeks and months. Plan and arrange any necessary initial training in advance of their arrival.
- Spend time with them, discussing their progress, both work and personal, listening to them and feeding back. Initially quite a lot of time but reducing as their comfort increases.

The aim of all the above is to build their confidence, integration and comfort inside the organisation. This will pay dividends by ensuring they reach the required performance sooner than if they struggle to adapt (and in the worst case, leave). It also demonstrates that yours is a professional organisation they will want to stay with (and tell other people).

After all, customer service starts internally!

This article has been provided by Jim Gilhooley of MorlanGil Human Resources Limited. For more information please contact Jim on 02392 658212 or jim.gilhooley@morlangilhr.co.uk

Client Focus - Children's Legal Practice (CLP)

This month, we catch up with client, Sarah Palmer, the Director and founder of the Children's Legal Practice based in Fareham…

As a specialist firm of solicitors, The Children's Legal Practice (CLP) was formed back in 2004, solely to deal with legal issues relating to children and their families. Based in Fareham, CLP's focus is to secure the best possible outcomes for the families they work with, by drawing on their specialist expertise in law, education, and family proceedings. This expertise comes from a team of nine, led by Directors, Sarah Palmer and Kirti Patel – both of whom are members of the Law Society's Children's Panel. Sarah explains, "At CLP, we provide a range of services, from dealing with care proceedings to trying to get the appropriate support for a child with complex Special Educational Needs. A large proportion of our work consists of assisting parents in finding the best educational placement to ensure their needs are met. So, for example, if a child is born with complex special needs, and is a wheelchair user, or non verbal, then it may be parent's wish for their child to attend a specialist school. The costs of funding this can be very high, so often the local authority must be taken to a tribunal appeal to gain that funding. Which is where we come in."

"If you are challenging a local authority, this procedure can be very complex. Over the years we have assisted parents with virtually every special need there is, helping families with children who have autism, down-syndrome, birth injuries, dyslexia, learning needs, visual impairments- to mention just a few."

Whilst the CLP is a small practice based in Fareham, the practice's clients stretch as far as the midlands, but most are located in Hampshire, London, Surrey and West Sussex. Sarah attributes the success of the practice to the reputation it has earnt through recommendations from other parents with children who have complex special needs. CLP's internet presence, and recommendations from schools, solicitors and other professionals working in this area, also contribute to the practices strong reputation.

"We have recently moved into new offices and now we are considering expansion of the CLP team." explains Sarah. "Of course, Compass has been with us throughout every step of our journey, joining us in 2004 when the company was launched. They have been a fantastic help for us over the years and have supported us through many changes, especially with our recent move. When we relocated, we went from renting a property to purchasing our offices- and during that process, we had Stuart on speed-dial! Now we have a bigger office, and therefore we have the capacity to expand."

"For us, having a personal relationship with our accountant really counts for a lot. We feel that Stuart knows our business very well, and can therefore tailor his advice specifically to our needs."

clp The Children's Legal Practice Ltd

Compass focus - Compass staff raise money on charity run

Compass Accountants team members, Sarah Harwood and Sam Beaven have both been busy recently, raising money for charities by participating in 'The Great South Run' in Southsea, Portsmouth.

The 10 mile running event took place in October, with runners passing through the iconic sights of Southsea and Portsmouth, including the Portsmouth Historic Dockyard, home of HMS Victory, past Spinnaker Tower, with a grand finish on the seafront.

Both Sam and Sarah ran a distance of ten miles both completing the race in good time (1hr and 46 for Sam and 1hr and 55 for Sarah).

Sam ran to raise money for Macmillan and Sarah ran to raise funds for Cancer Research as both of their families had previously been affected by cancer.

Sam raised a total of £355.00, and gained support from Compass through activities such as cake making and office games, and Sarah raised a total of £200.00. Both have said they would definitely consider running again next year!

Well done girls!

Tax Diary
December 2016/January 2017

1 December 2016	Due date for Corporation Tax for years ended 29 February 2016.
19 December 2016	PAYE and NIC deductions due for month ended 5 December 2016. (If you pay your tax electronically the due date is 22 December 2016)
19 December 2016	Filing deadline for the CIS300 monthly return for the month ended 5 December 2016.
19 December 2016	Due date for CIS tax deducted for the month ended 5 December 2016.
30 December 2016	Deadline for filing 2015-16 Self-Assessment online to include claim for under payments (under £3,000) to be collected via tax code in 2017.
1 January 2017	Due date for Corporation Tax for years ended 31 March 2016.
19 January 2017	PAYE and NIC deductions due for month ended 5 January 2017. (If you pay your tax electronically the due date is 22 January 2017)
19 January 2017	Filing deadline for the CIS300 monthly return for the month ended 5 January 2017.
19 January 2017	Due date for CIS tax deducted for the month ended 5 January 2017.
31 January 2017	Last day to file 2015-16 Self-Assessment Tax Returns online.
31 January 2017	Balance of Self-Assessment tax owing for 2015-16 due to be settled today. Also first payment on account for 2016-17 due today.

Wishing you and your family a very Merry Christmas and a Happy New Year.

From all the Team at Compass Accountants

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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