COMPASS

ACCOUNTANTS

TAX ANGLES FOR PROACTIVE PLANNING

Newsletter - February 2020

In this month's edition…

Reporting low emission vehicles – Changes from April 2020

From 6 April 2020, new appropriate percentage bands – and new lower charges for low emissions cars – will apply for company car tax purposes.

From the same date, the way in which carbon dioxide emissions are measured is also changing. This means that in order to find the correct appropriate percentage for working out the taxable benefit of a company car, you will need to know whether the car was registered on or after 6 April 2020 or before that date, as well as the level of the car's CO2 emissions. As a transitional measure, with the exception of zero emission cars, the appropriate percentage for cars registered on or after 6 April 2020 is 2 percentage points lower than cars registered prior to that date for 2020/21 and one percentage point lower for 2021/22.

The figures are aligned from 2022/23. For zero emission cars, the charge is 0% for 2020/21, 1% for 2021/22 and 2% from 2022/23, regardless of the date on which the car is registered. The maximum charge is capped at 37%, and the diesel supplement applies as now.

More information will be needed to work out the appropriate percentage where the car's CO2 emissions (however measured) fall in the 1—50g/km band.

From 6 April 2020, this band is sub-divided into five further bands, each with their own appropriate percentage. The band into which the car falls depends on its electric range (also known as its zero emission mileage). This is the maximum distance that the car can be driven in electric mode without having to recharge the battery. The relevant bands are as follows:

- more than 150 miles
- 70 to 129 miles
- 40 to 69 miles
- 30 to 39 miles
- less than 30 miles

The greater the car's zero emission mileage, the lower the appropriate percentage.
Splitting the 1—50g/km band introduces additional reporting requirements. The precise nature of those changes depends on whether car and fuel benefits are payrolled.

Payrolled benefits

Where car and fuel benefits are payrolled, information on cars provided to employees is submitted to HMRC on the Full Payment Submission (FPS), rather than on form P46(Car). From 6 April 2020, where an employee has a car with carbon dioxide emissions that fall within the 1—50g/km band, the car's zero emission mileage must be reported to HMRC in the new field that will be available from that date.

P46(Car) changes

If car and fuel benefits are not payrolled, form P46(Car) provides the mechanism for letting HMRC know when an employee has been given a car for the first time or given an additional car. The form can be submitted in various ways – on paper, using the online service or PAYE online.

Reporting low emission vehicles – Changes from April 2020 - Continued

From 6 April 2020, the form will have an additional field for zero emission mileage which must be completed when providing an employee with a car with CO_2 emissions in the 1—50g/km band. The deadlines for submitting the form are unchanged and are as shown in the table below.

Period in which change took place	Deadline for reporting it to HMRC
6 January to 5 April	5 April (where electronic form used) 3 May (where printed form used)
6 April to 5 July	2 August
6 July to 5 October	2 November
6 October to 5 January	2 February

Trivial benefit traps – Contractual obligations

The trivial benefits exemption allows employers to provide employees with low cost benefits free of tax and National Insurance and any reporting obligations. For the purposes of the exemption, a benefit is trivial if the cost per head is not more than £50. Where trivial benefits are provided to an officer of a close company or a member of their family or household, an annual cap of £300 per tax year also applies.

For the exemption to be available, the benefit must not be provided in return for services provided and the employee must not be contractually entitled to receive the benefit.

Contractual entitlement

Contractual entitlement is wider than simply inclusion in the contract of employment. Consequently, the fact that the contract makes no reference to the provision of trivial benefits is not enough to satisfy the conditions for the exemption.

In the December 2019 issue of their *Employer Bulletin*, HMRC highlighted a number of ways in which a contractual obligation may arise, including:

- a letter to the main contract document
- a staff handbook
- a redundancy agreement
- an employer union agreement

If any of these provide for the employee to receive the trivial benefit, the exemption will not apply.

Beware of creating a 'legitimate obligation'

Employers seeking to make use of the trivial benefits exemption should also be wary of falling into the 'legitimate expectation' trap; a contractual obligation may also arise is the employee has a legitimate expectation to receive the benefit.

In the December 2019 issue of *Employer Bulletin,* HMRC illustrate this with an example of an employer who provides employees with a cream cake each Friday. While there is no contractual obligation for the employer to provide the employees with a cream cake on a Friday, the fact that the employer does so every Friday creates a legitimate expectation, taking the provision of the cakes outside the trivial benefits exemption.

Frequency seems to be a problem here – HMRC seemingly do not apply the legitimate expectation argument where a benefit is provided annually, even if it is provided each year. HMRC's Employment Income Manual at EIM21867, states:

"Just because a gift is provided each year, or is provided to all staff members, does not mean that the employee has a contractual entitlement to it."

The guidance instructs HMRC officers that they "should not normally challenge modest gifts that are provided infrequently to employees, just because they are given to employees each year – for example, a Christmas or birthday gift".

Good practice

To avoid falling into the legitimate expectation trap, vary both the nature and timing of trivial benefits provided to employees.

Making the most of pension tax allowances

Pension savings can be tax efficient as contributions to registered pension schemes, attracting tax relief up to certain limits.

Limit on tax relief
Tax relief is available on private pension contributions to the greater of 100% of earnings and £3,600. This is subject to the annual allowance cap.

Tax relief may be given automatically where your employer deducts the contributions from your gross pay (a 'net pay scheme'). Alternatively, if you pay into a personal pension yourself or your employer pays contributions into the scheme after deducting tax, the pension scheme will claim basic rate relief ('relief at source'). Thus if you pay £2,880 into a pension scheme, your scheme provider will claim basic rate relief of £720, meaning your gross contribution is £3,600. If you are a higher or additional rate taxpayer, the difference between the basic rate tax and your marginal rate can be reclaimed from HMRC via your self-assessment return.

Annual allowance
The pension annual allowance caps tax-relieved pension savings – contributions can be made to a registered pension scheme in excess of the available annual allowance, but they will not attract tax relief. The annual allowance is set at £40,000 for 2019/20; although this may be reduced if you have high earnings.

The annual allowance taper applies where both your threshold income is more than £110,000 (broadly income excluding pension contributions) and your adjusted net income (broadly income including pension contributions) is more than £150,000.

Where the taper applies, the annual allowance is reduced by £1 for every £2 by which adjusted net income exceeds £150,000 until the annual allowance reaches £10,000. This is the minimum amount of the annual allowance. Only the minimum allowance is available where adjusted net income is £210,000 or more and threshold income is more than £110,000.

The annual allowance can be carried forward for up to three tax years if it is not used, after which it is lost. The current year's allowance must be used first, then brought forward allowances from an earlier year before a later year.

Example
Harry has income of £100,000 in 2019/20. He has received an inheritance and wishes to make pension contributions of £60,000. In the previous three years he has used £10,000 of his annual allowance, leaving £30,000 to be carried forward for up to three years.

To make a contribution of £60,000 for 2019/20, Harry will use his annual allowance of £40,000 for 2019/20 and £20,000 of the £30,000 carried forward from 2016/17. The £10,000 remaining of the 2016/17 allowance will be lost as cannot be carried forward beyond 2019/20. The unused allowances of £30,000 for 2017/18 and 2018/19 can be carried forward to 2020/21.

Reduced money purchase annual allowance
A lower annual allowance of £4,000 (money purchase annual allowance (MPAA)) applies to those who have flexibly accessed pension contributions on reaching age 55. This is to prevent recycling of contributions to secure additional tax relief.

Lifetime allowance
The lifetime allowance places a ceiling on your pension pot. For 2019/20 it is set at £1,055,000. A tax charge will apply if you exceed the lifetime allowance

Incidental overnight expenses

A tax exemption enables an employer to meet small personal expenses when an employee stays away from home for work, without the employee suffering a tax charge and without any need to report the expenses to HMRC.

What are incidental overnight expenses?
Incidental overnight expenses are personal (i.e. non-business) expenses incurred when an employee travels overnight for business. Examples include:

- a newspaper
- laundry
- telephone calls home

How much is the exempt amount?
The exempt amount is £5 per night for trips in the UK and £10 per night for overseas trips. These limits have not been increased.

It should be noted that the exemption only applies if the expenses do not breach the limit. If amounts paid to the employee are more than the exempt amount, the full amount is taxable not just the excess over the exempt amount.

Per trip not per day
The exemption can be applied per trip rather than a day-by-day basis. This means that it will apply as long as the incidental overnight expenses paid for the trip do not exceed the allowance for the full trip – it does not matter if on a particular day the allowance is exceeded as long as on average within the exempt limit.

The application of the allowance is illustrated by the following example.

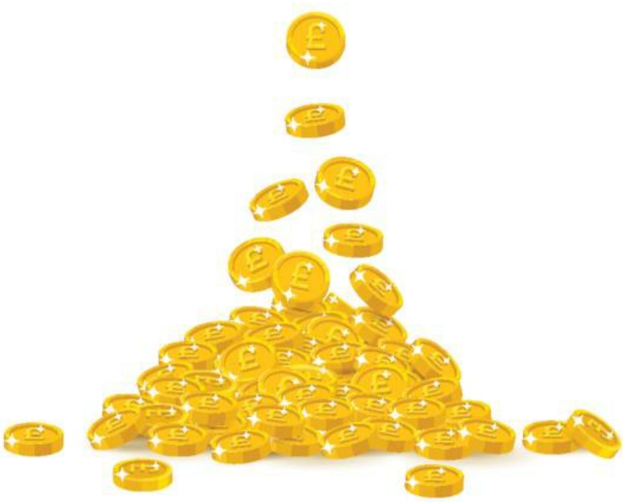
Example
Rachel and Anna are colleagues and often travel on business.

In January 2020, Rachel spent five consecutive nights away from home on a business trip in the UK. During the trip she incurred incidental expenses of £21 which were reimbursed by her employer.

On one day, her expenses (for laundry) were £8. On the remaining four days, they were less than £5 per day.

The exempt amount is £5 per day for overnight stays in the UK – equivalent to £25 for a five-night trip. As the expenses paid by her employer are less than £25, the exemption applies. It does not matter that on one day the actual expenses were more than the £5 daily limit.

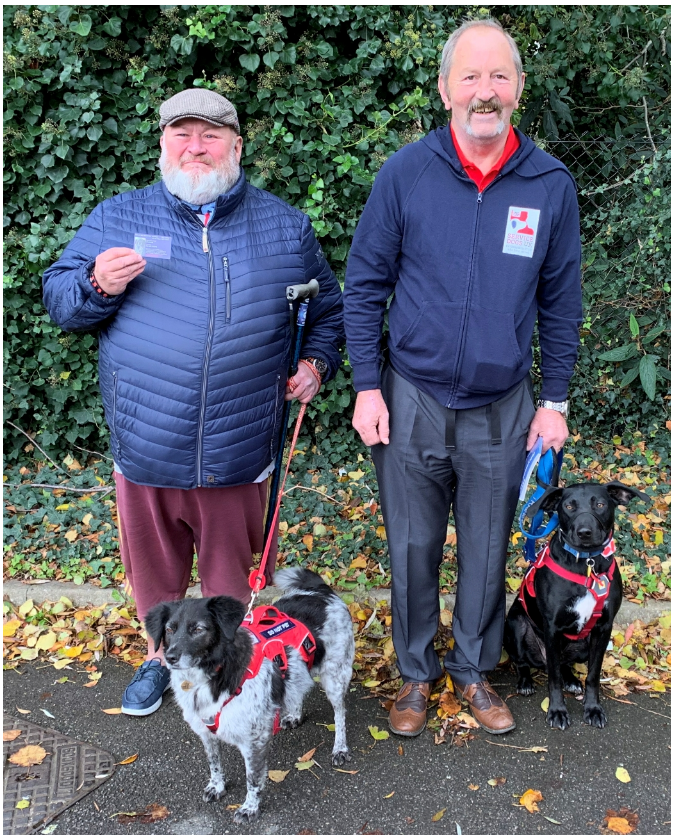
Anna also took a business trip during January, spending three consecutive nights in Germany. She incurred incidental expenses of £31 which her employer reimburses. For trips abroad, the exempt amount is £10 per night – a total of £30 for a three-night trip. As the amount paid by Anna's employer is more than £30, the full amount is taxable and liable to Class 1 National Insurance.



Client Focus - Service Dogs UK

This month, we catch up with Garry Botterill- a Compass client and the co-founder of the registered charity- Service Dogs UK…

Service Dogs UK trains and provides Assistance Dogs, selected carefully from rescue, to support members of the Armed Forces and Emergency Services with PTSD (Post-Traumatic Stress Disorder)



'Rene & Alisha and Mick & Hudson- who recently passed the Public Access Course in November.'

Garry's colleague, a Veteran in the Royal Navy who had served in the Falklands War, was almost killed in crime related incident whilst on duty as a Police Officer. He was dragged under a moving car and as a result of the accident, suffered from PTSD. It was shortly after, that Garry (who is also a serving Police Officer), looked into what could be done to alleviate the symptoms of PTSD and discovered that there wasn't a lot available. He did, however, discover many US organisations that were using assistance dogs to help veterans with PTSD. He applied for and won a Travelling Fellowship with the Winston Churchill Memorial Trust and visited the States to research how the dogs help, with a view to bringing a similar service back to the UK. After this visit, and with a lot of hard work following the launch of Service Dogs UK, they began training their first Veteran and dog in September 2015.

How the charity works

Based in Fareham, Service Dogs UK has a great working relationship with The Dog's Trust. When Service Dogs UK (SDUK) are ready to take on a new dog they contact Dogs Trust to see if they have any dogs that are suitable for training, an assessor from SDUK will then go and assess the dog. If the dog has potential, SDUK continue to assess the dog for between 16-20 weeks. Here they verify if it is suitable, and if successful, the dog is then paired with a Veteran with PTSD, who after some initial training at the training venues will take him/her home and continue to train the dog.

"It's a positive procedure all around." explains co-founder, Garry Botterill, "Because, even if the dog isn't quite suitable for our full training requirements, we are able to return it to The Dog's Trust after the 16-20 weeks initial training and assessment period, as a happier dog that is now well trained and therefore a more desirable pet."

"If the dog is successful it is partnered with someone with PTSD, and a 9-month period of training and fun begins. The veterans then train the dogs themselves under the supervision and guidance of our training team'.

How the dogs help

People suffering from PTSD typically have difficulties going out, mixing with members of public and being in busy places. They can experience flashbacks and dissociation, and even forget what they are doing. As well as being taught practical things (such as fetching and carrying), the dogs are also taught how to mitigate the symptoms of PTSD. "Many sufferers of PTSD experience regular nightmares," explains Garry, "So, the dogs are trained to understand the signs of these nightmares- such as noises of vocal disturbance and sweating. They then intervene and wake them up. This means the veterans are less concerned before sleeping and this significantly improves their sleeping patterns."

Client Focus - Service Dogs UK - Continued

“Also, if they are experiencing a flashback – the dog will ground them or bring them back reality, so they become aware that they are not in, for example, a war zone, but in the here and now. They are also trained to escort the veterans to the nearest exit and can even position themselves to help PTSD sufferers have more personal space, so they feel more secure and less anxious.”

The dogs are also able to help with the isolation often experienced with PTSD, as they reinforce a regular routine and structure of going out twice a day. They encourage the veterans to socialise by meeting people and having conversations in the park, all of which increase the confidence the person previously lacked.

“Having a dog has been proven to increase levels of oxytocin in the brain, bringing you to a state of calm, therefore reducing stress and anxiety.” explains Garry. “This engenders trust and a feeling of security- and that in itself helps people to cope better with the symptoms of PTSD.”

“Also, the training procedure encourages sufferers of PTSD to gather in a group training situation and gives them a platform to make friends. When you are teaching a dog not to react to the bang of a car back-firing and teaching them that the sound is nothing to worry about- you are inadvertently teaching yourself that as well.”

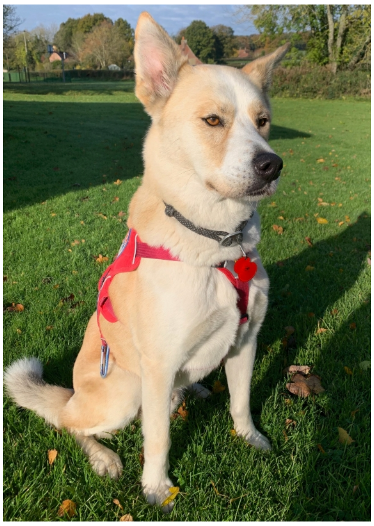
Service Dogs UK now have 12 working partnerships with more Veterans waiting to join the programme. Garry plans on expanding the charity in the future, as demand continues to grow. He explains, “Currently we raise a lot of money from community fundraising events and challenges, through clubs and local groups and we have also had some sponsorship – but this year, for the first time ever we are applying for grants. We are hoping this will help us to grow so we can meet the growing need for these dogs from our Armed Forces Veteran and Emergency Services communities.”

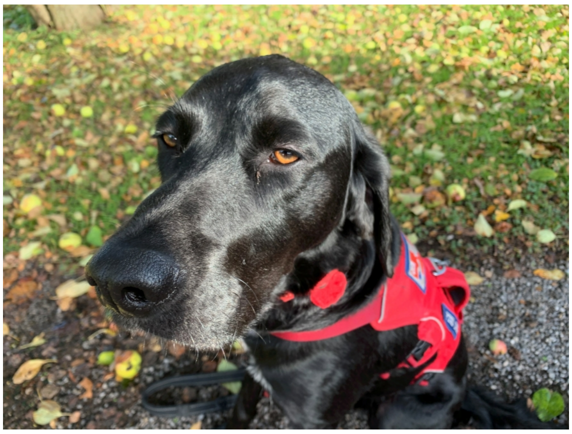
Finding Compass Accountants

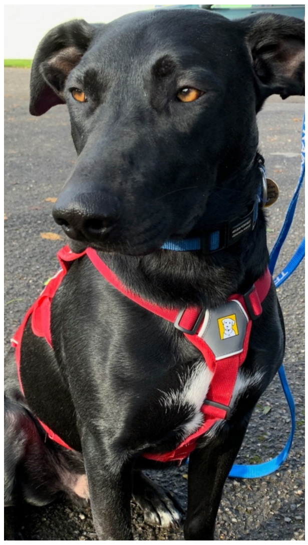
“I found out about Compass by searching on the internet,” said Garry, “I was looking for an accountant that had a niche in working in the charity sector, and when Compass came up I also noticed they happened to be in Fareham. Our head office was previously in Huddersfield- but we wanted to move the registered office to the South, so it made sense to change accountants.”

“Compass have been great. From the start, everything has been moved over to them with great ease and simplicity. As well as working with the charity- I am also a serving Police Officer, and so time is precious. When you are up against it, you don’t want to spend time working on the accounts, so Compass’ service works perfectly. Also, Compass’ prices are more reasonable than our last accountant- and they are very easy to speak to, very accommodating and nothing is too much hassle- I’m glad we chose Compass.”

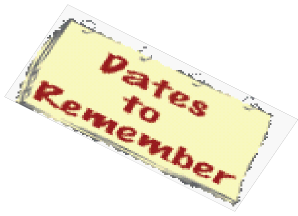
If you are interested in the Service Dogs UK charity- or would like to help volunteer, help raise funds or make a donation- go to: www.servicedogsuk.org







Tax Diary
February/March 2020



1 February 2020 – Due date for Corporation Tax payable for the year ended 30 April 2019.

19 February 2020 – PAYE and NIC deductions due for month ended 5 February 2020. (If you pay your tax electronically the due date is 22 February 2020)

19 February 2020 – Filing deadline for the CIS300 monthly return for the month ended 5 February 2020.

19 February 2020 – CIS tax deducted for the month ended 5 February 2020 is payable by today.

1 March 2020 – Due date for Corporation Tax due for the year ended 31 May 2019.

2 March 2020 – Self assessment tax for 2019/19 paid after this date will incur a 5% surcharge.

19 March 2020 – PAYE and NIC deductions due for month ended 5 March 2020. (If you pay your tax electronically the due date is 22 March 2020)

19 March 2020 – Filing deadline for the CIS300 monthly return for the month ended 5 March 2020.

19 March 2020 – CIS tax deducted for the month ended 5 March 2020 is payable by 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 us on 01329 844145.

Compass Accountants

Venture House,
The Tanneries, East Street, Titchfield
Hampshire
PO14 4AR

Contact us:
TEL: 01329 844145
EMAIL: contact@compassaccountants.co.uk