Compass Accountants

Newsletter - February/March 17

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

TaxAngles - For proactive tax planning

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Could you have money or assets which you have lost track of?

The Financial Times has estimated that there is a "sea of unclaimed assets sloshing around the financial system"! Conservatively they pitch this at a sum conservatively estimated to be worth £77billion!

Yes that's £77,000,000,000!

That is £1,200 per head of the 64 million people in the United Kingdom!

Assets are considered dormant when contact with the owner is lost. Typically this arises due to a

- Change of name after marriage or divorce
- An unreported change of address
- An expired postal forwarding order and
- Incomplete or illegible records

It is important to be aware that many family members don't know they are entitled to collect unclaimed assets owed to deceased relatives who passed away without leaving updated financial records.

The good news is that money lying in old pensions, investment funds, bank or savings accounts still belong to you and it needs a bit of effort to track it down!

You can be proactive and do some of the leg work yourself by going on the internet and approaching various industry associations directly. There is a helpful website at www.unclaimedassets.co.uk which provides a comprehensive list of the main organisations where lost assets/accounts may be traced with contact details for each. Also go to www.moneysavingexpert.com

Alternately you can go to Experian's Unclaimed Asset Register (www.uar.co.uk) who will carry out a search for you for a small fee of £25 each search.

Happy Detective Work!

Quote of the month…

"Optimism is a strategy for making a better future. Because unless you believe that the future can be better, you are unlikely to step up and take responsibility for making it so".

- Noam Chomsky - American Philosopher

Interest relief for lettings – making the most of the old rules

The mechanism by which landlords receive tax relief for interest and other finance costs is changing from April 2017 … and not for the better. The current rules are more generous than the new rules in that they enable the landlord to receive tax relief at his or her marginal rate of tax. By contrast, the new rules - which are being phased in - will, when fully implemented, provide relief only at the basic rate. Further, relief will be given as an income tax reduction rather than as a deduction from rental income when computing taxable profits.

Current rules
Under the existing rules, interest and other finance costs, such as fees for arranging a mortgage or loan, are deducted as an expense when working out taxable profits.

Example

John has two properties which he lets out. In 2016/17, he pays mortgage interest of £10,000 on mortgages taken out to buy the properties. He receives rental income of £18,000 in the year and incurs other allowable expenses of £2,000.
The properties are investment properties. John is employed as an IT consultant and in 2016/17 he receives a salary of £70,000. He is a higher rate taxpayer.

For 2016/17 he can deduct the mortgage interest, along with the other expenses, to arrive at a taxable profit of £6,000. Thus, he obtains relief for the mortgage interest at his marginal rate of tax of 40% - thereby reducing his tax bill by £4,000.

Looking ahead

Relief for finance costs is to be gradually restricted from 2017/18 onwards, although the restriction only applies in relation to residential properties. It does not affect commercial lets.

The restriction is to be phased in from April 2017 and will be fully in place from the 2020/21 tax year.
In the transitional period, some relief will be given as for the current rules as a deduction in computing profits and relief for the remainder will be given as a basic rate tax deduction.

- For 2017/18, relief for 75% of the allowable interest and other finance costs will be deductible from rental income and relief for the remaining 25% will be given as a basic rate tax deduction.
- For 2018/19, relief for 50% of the allowable interest and other finance costs will be given as a deduction from rental income and the relief for the remaining 50% as a basic rate tax.
- For 2019/20, relief for 25% of the allowable interest and other finance costs will be given as a deduction from rental income and relief for the remaining 75% will be given as a basic rate tax deduction.
- From 2020/21, relief for all allowable interest and finance costs will be given as a basic rate tax reduction.

Based on the facts in the above example, once the restriction is fully implemented, John will receive relief for his mortgage interest costs as a reduction in his tax bill of £2,000 (assuming a basic rate tax of 20%). The change in the rules will ultimately cost him £2,000 a year compared to the current position.
The current rules are more generous than the new rules, and where costs can be brought forward to 2016/17 rather than 2017/18, this can be potentially advantageous to higher and additional rate taxpayers.

Marriage allowance – can I claim it?

The marriage allowance (not to be confused with the married couple's allowance available where at least one partner was born before 6 April 1935) enables an individual to transfer 10 per cent of their personal allowance for the tax year to their spouse or civil partner. However, there are conditions attached and this transfer facility is not available to all couples.

Who can benefit

The option to transfer 10% of the personal allowance is available where an individual:

- is married or in a civil partnership;
- has no income or whose income is below the level of the personal allowance; and
- whose spouse or civil partner does not pay tax at the higher or additional rate.

This means that for 2016/17 the option to claim the married couple's allowance is available where one spouse or civil partner has income (excluding savings income of up to £1,000 and dividend income of up to £5,000) of less than £11,000 and the other spouse has income of less than £43,000.

Claiming the allowance

An application can be made online at www.gov.uk/apply-marriage-allowance

To make the claim, both the transferor and transferee's National Insurance number is needed. It is also necessary to prove your identity. This can be done by providing one of the following:

- last four digits of the account into which any child benefit is paid;
- the last four digits of an account that pays interest;
- P60 details;
- details from your last three payslips; or
- your passport number and expiry date.

A confirmation email will be sent once an application can be made.

It is also possible to apply for the allowance via the self-assessment tax return.

Note the claim must be made by the person who is transferring their allowance, not by the recipient.

Once a claim has been made the allowance will apply automatically in future years, unless circumstances change or the claim is cancelled. The claim can be cancelled online.

Time limit

A person has four years from the end of the tax year to which the allowance relates to claim the marriage allowance and transfer 10% of their personal allowance to their spouse. The first year for which a claim could be made was 2015/16 – so if you haven't claimed and it is beneficial to do so, you have until 5 April 2020 to make the claim.

What is it worth?

The claim is worth up to 2% of the annual allowance. An individual who has not used all of their personal allowance can transfer 10% of it to their spouse or civil partner as long as the recipient is a basic rate taxpayer. The recipient will save tax at 20% on the amount transferred.

For 2015/16, the personal allowance was £10,600. At 10%, the marriage allowance was £1,060 and the tax saved (at 20% of £1,060) was £212.

For 2016/17, the personal allowance is £11,000. At 10% the marriage allowance is £1,100 and the tax saved (at 20% of £1,100) is £220.

Tax code changes

Where the transferor and transferee are employees, their tax code will change to reflect the marriage allowance. The recipient will have an M suffix code and the transferor will have an N suffix code.

Overpaid PAYE and how to get it back

There are various reasons why a PAYE overpayment may arise. This can happen simply because an error was made when paying PAYE and too much was paid or a payment was made twice. An overpayment may also arise where an employer has recovered a statutory payment or where the employer forgot to deduct the employment allowance to which they were entitled when making the payment to HMRC.

Where the PAYE account appears to be in credit, the first step to getting a refund is to establish why the overpayment has arisen and to check that it is not simply due to an error in the FPS or the EPS. Where the FPS or EPS is wrong, the error should be corrected by submitting an amended FPS or EPS, as appropriate.

Overpayment in current tax year

Where the overpayment relates to the current tax year, getting a refund is straightforward in that the amount by which the PAYE account is in credit can simply be deducted from subsequent payments to HMRC in the same tax year, until everything is square again.

Overpayment relates to a previous tax year

Things become somewhat more complicated where the PAYE overpayment relates to a previous tax year, not least because HMRC are reluctant to accept an overpayment is genuine. Where the overpayment is more than £500, HMRC require an acceptable explanation as to why it arose before they will consider repaying or reallocating it. It is therefore vital to identify why the overpayment arose and provide evidence to support the explanation.

Claiming a refund

Employers seeking a refund for a PAYE overpayment in a previous tax year need to make a claim, either by calling the Employer Helpline on 0300 300 3200 or writing to HMRC at the following address:

National Insurance Contributions and Employers Office
HM Revenue and Customs
BX9 1BX

The following information should be provided:

- business name and address;
- PAYE reference;
- contact telephone number;
- amount overpaid for each tax year for which a claim is made;
- tax month in which the overpayment arose (if possible);
- for each year for which a claim is made, why you overpaid; and
- whether this overpayment has been claimed before.

However, it should be noted that HMRC will allocate the overpayment against any PAYE owing for the current or other earlier years before making a refund. They will also set it against any other tax that may be owing, such as any outstanding corporation tax, before making a repayment.

Once they are satisfied that the repayment is due, it will be made directly to the employer's bank account if an EPS containing bank details has been submitted.

Residence nil rate band

From April 2017, a new nil rate band – the residence nil rate band (RNRB) – is available for inheritance tax purposes. It increases the amount that can be left free of inheritance tax when the estate includes a residence (or a share in a residence) that is left to a direct descendant.

When is it available

The RNRB is available to an estate where:

- the individual dies on or after 6 April 2017;
- the estate includes a residence or a share of a residence;
- the residence or share of a residence is inherited by direct descendants of the individual; and
- the value of the estate is not more than £2 million (the allowance is tapered away once the value of the estate exceeds £2 million).

Residence nil rate band - Continued

How much is it worth

The RNRB is set at £100,000 in 2017/18, increasing to £125,000 for 2018/19, £150,000 for 2019/20 and £175,000 for 2020/21. It is available in addition to the normal inheritance tax nil rate band of £325,000. This means that by 2020/21 a couple can leave £1 million free of inheritance tax where the estate includes a residence worth at least £350,000, which is left to direct descendants.

Couples

As with the normal nil rate, any portion of the RNRB unused on the death of the first spouse or civil partner can be used on the death of the second spouse or civil partner. This is the case even if the first spouse or civil partner dies before 6 April 2017, as long as the second death occurs on or after this date.

Direct descendants

To qualify, the residence (or share in a residence) must be left to a direct descendant. This is a lineal descendant (children, grandchildren, great grandchildren, etc.) or the spouse or civil partner of a lineal descendant. Also qualifying, are step-children, adopted children and foster children of the deceased, and a child for whom the deceased was appointed a guardian or special guardian while they are under 18.

The residence

To qualify for the RNRB, the residence must be included in the deceased's estate and must have been lived in by the residence at some point. However, it does not have to be the main home.

An estate can also benefit from the RNRB where the deceased downsized after 7 July 2015.

Estates worth more than £2 million

Where the estate is worth more than £2 million, the RNRB is reduced by £1 for every £2 by which the value of the estate exceeds £2 million. For £2017/18 it is lost completely where the estate exceeds £2.2 million.

Salary sacrifice after April 2017

To date, salary sacrifice arrangements have been a popular way for employees to benefit from tax-free benefits without employers footing the bill. Under a salary sacrifice arrangement, the employee gives up an amount of tax-free salary in return for a benefit in kind. Where the benefit in kind taken in exchange is exempt from tax and National Insurance, the employee saves tax and primary Class 1 National Insurance on the salary foregone and the employer saves the associated secondary Class 1 National Insurance. Popular benefits taken in exchange for cash salary under a salary sacrifice scheme include childcare vouchers and mobile phones.

All change

Salary sacrifice arrangements have been a victim of their own success. Concerned as to the cost to the Exchequer, the Government are seriously restricting the availability of tax exemptions for benefits in kind where the benefit in question is provided under a salary sacrifice arrangement. The restrictions take effect from 6 April 2017, with some protection for schemes entered into prior to that date.

New rule

Under the new rule, unless the benefit in kind taken in exchange is one permitted under the legislation, a benefit in kind provided under a salary sacrifice arrangement will be taxed on the higher of the cash foregone and the taxable value (i.e. the cash equivalent). Consequently, where a benefit would normally be exempt (so the cash equivalent value is nil), the benefit of the exemption is lost where provision is made under a salary sacrifice arrangement as under the new rules the employee would instead by taxed by reference to the cash given up.

Example

Oliver enters into a salary sacrifice arrangement under which he gives up cash salary of £500 in return for a mobile phone. The mobile phone would normally be exempt from tax, but under the new rules the benefit of the exemption is lost and Oliver is taxed by reference to the cash given up of £500.

Salary sacrifice after April 2017 - Continued

Exclusions

The new rules do not apply to the following benefits when made available under a salary sacrifice or flexible benefit arrangement:

- pension savings
- employer-provided pension advice
- childcare and childcare vouchers
- cycles and cyclists' safety equipment under cycle to work schemes

Consequently, employees will still be able to enjoy any associated tax exemptions where the above are made available under a salary sacrifice scheme.

Start date – new contracts

The new rules will apply immediately to arrangements entered into on or after 6 April 2017.

Start date – existing contracts

Where a salary sacrifice arrangement was entered into before 6 April 2016, there is a period of grace before the new rules apply.

For existing contracts, the start date is the earlier of the date on which the contract ends, is modified or renewed and 6 April 2021, where the benefit taken in exchange is a car (other than an ultra-low emissions car), living accommodation, or school fees, and 6 April 2018 in all other cases.

Act before 6 April 2017 to preserve benefits

To continue to benefit from the existing rules as long as possible, contracts should be taken out, modified or renewed before 6 April 2017.

The Blue Lamp Trust – licensed to improve safer taxis!

The Blue Lamp Trust, one of our clients, has been chosen to carry out taxi driver tests for 75 authorities across the United Kingdom.

The Trust is a welfare charity and will now be carrying out hundreds of tests in a bid to improve public safety across the whole country.

The authorities across the UK were impressed by the rigorous testing offered by the charity through its Taxi Driver assessment programme.

Taxi Driver assessments are carried out by DVSA approved fleet assessors.

While the assessment is not required by law, most licensing authorities demand taxi drivers pass it to prevent unsafe drivers putting passengers and the community at risk when transporting them.

Drivers are only allowed up to 9 minor faults compared with 15 minor faults on learner driver tests.
No major or dangerous faults are allowed.

The Trust also operated "The Bobby Scheme", a service which provides **FREE** home security, long-life smoke alarms and peace of mind for the vulnerable and elderly in Hampshire.

Unsolicited donations are welcomed by The Trust.

The Mary Rose Museum – Winner of Silver Award in the Large Visitor Attraction of the Year category at the Beautiful South awards 2016.

Held at the Ageas Bowl, the ceremony celebrated the fantastic visitor experiences available across the South and South East of England.

The Beautiful South awards have been established for over 20 years and rewards excellence, quality innovation and customer service.

This is another accolade for The Museum which was also a finalist in 2014 for the Art Fund Museum of the Year.

The Museum reopened to international acclaim last summer. As a result of the elaborate and demanding environment with which the new museum has been designed and constructed, for the first time in 23 years visitors breathe the same air as the Mary Rose itself!
The new museum provides stunning panoramic views from all the nine viewing galleries through floor to ceiling glazing on the lower and main decks.

On the upper deck visitors after the Weston Ship Hall via an airlock are separated from the ship by only a glass balcony. These visitors are treated to a new and visual way of telling The Mary Rose's unique story.

Client focus - GJC Electrical Services Limited

This month we catch up with Gavin Cato, from GJC Electrical Services, who explains how his experience has enabled him launch his own services to Hampshire businesses …

After gaining a strong background as an electrician working for organisations including BAA, Avionics Mobile Services Limited and Scottish and Southern Energy, Gavin Cato launched his business GJC Electrical services back in 2015. He now assists organisations with any electrical services that are required within a ten mile radius of the Fareham area and even further afield depending on the size of the job.

“Whether you are a business, landlord, commercial property owner or a facilities management company, my aim is to relieve my clients of the stress of electrical problems.” explains Gavin.

With an impressive background as an industrial electrician, Gavin has previously refurbished helicopters and even repaired radar and satellite navigations systems. It is this experience that gives Gavin such a broad offering as a service provider.

“Basically, if your problem has a wire on it- you can call me.” says Gavin. “I work in so many vastly different areas for example, tomorrow I will be connecting a security barrier on a business’ car park, and yesterday I was working to disconnect ATM machines in various petrol stations. I also fix and install high bay lighting, low bay lighting, flood and street lighting, emergency lighting, underfloor heating, ducting, dado rail, data wiring, single phase and three phase power and skirting trunking – the list is endless!”

Having recently teamed up with facility management organisations, Gavin aims to be the ‘go to’ person for any business with electrical issues. “To be successful in this job, you need to be reactive” he explains, “so if the phone rings, I usually need to respond in good time, especially if the issue is causing a business big problems. This can often be challenging but that is part of the fun.”

“Looking forward, I’m hoping to expand and perhaps take on one or two people, which will allow me to grow the organisation and increase my workload. Developing any business takes time, and building trust and creating good working relationships is key, I’ve certainly made progress since launching and Compass Accountants have definitely helped with this.”

“I first discovered them online, when searching for accountants in the area,” says Gavin, “They came highly recommended on a local government business website. Later, after reading about them, I recognised the Compass logo when I was passing their building in Titchfield, so I went and spoke to them about how they could help.”

“When I was ready to launch the business fully, Compass helped me make sure everything was in correct order. Looking back, they really gave me the confidence and understanding that I needed to successfully work for myself. They are so positive, encouraging and knowledgeable about all those facts you need to know. It’s daunting, starting your own business and often you can feel that there is too much information to absorb. You find yourself reading up on things, but not actually progressing. Compass break all of that down and put everything in simple, easily digestible terms helping to confirm that what I am doing is right.”

“I recommend Compass entirely they are so friendly and approachable, not at all how you would imagine an accountancy firm to be!”

If you are interested in Gavin’s services, or have a question for Gavin, please call him on 07961302609 or email on gjces@yahoo.co.uk. You can also contact Gavin via his Facebook page, found here: www.facebook.com/GJCES/

Tax Diary
February/March 2017

1 February 2017	Due dates for Corporation Tax for the years ended 30 April 2016.
19 February 2017	PAYE & NIC deductions due for month ended 5 February 2017. (If you pay your tax electronically the due date is 22 February 2017)
19 February 2017	Filing deadline for the CIS300 monthly return for the month ended 5 February 2017.
19 February 2017	Due date for CIS tax deducted for the month ended 5 February 2017.
28 February 2017	Self-Assessment for 2015/16 will incur a 5% charge if not paid by this date.
1 March 2017	Due date for Corporation Tax for years ended 31 May 2016.
19 March 2017	PAYE and NIC deductions due for month ended 5 March 2017. (If you pay your tax electronically the due date is 22 March 2017)
19 March 2017	Filing deadline for the CIS300 monthly return for the month ended 5 March 2017.
19 March 2017	Due date for CIS tax deducted for the month ended 5 March 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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