Compass Accountants

Newsletter - January/February 17

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

TaxAngles - For proactive tax planning

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Benefits in kind and making good

Most benefits in kind are taxable and the employee is taxed on the cash equivalent of the value of that benefit. Where the employee is required to make a payment to the employer in return for the provision of the benefit and actually does so, the cash equivalent of the benefit is reduced by the amount 'made good' by the employee. Making good allows the employee to reduce or eliminate the tax charge.

Example

Harry's employer provides private medical insurance for Harry and his family. The cost to the employer is £500 a year. Harry is required to make a contribution of £200, which he does. By 'making good' £200 of the cost, the cash equivalent of the benefit on which tax is charged is reduced from £500 to £300.

Where the benefit in question is fuel for a company car, the amount made good by the employee can be computed using the advisory fuel rates.

Example

Helen has a company car. The car is a petrol car, which for 2016/17 has an appropriate percentage of 22%. Helen's employer pays for all fuel for the car, but Helen is required to make good the cost of fuel for private motoring.

In the year, Helen drives 10,000 private miles. Assuming the advisory fuel rate for her 1600 cc car is 14p per mile and Helen pays her employer £1,400 in respect of her private mileage, she will be regarded as having made good the cost of her private fuel. Consequently, the tax charge is reduced to nil.

Time for making good

Earlier in the year the Government consulted on the deadline by which the employee must 'make good' in order to reduce or eliminate the tax charge that would arise on the benefit in kind.

At the time of the 2016 Autumn Statement, it was announced that from 2017/18 the making good deadline for all benefits will be set at 6 July after the end of the tax year in which the benefit was provided. Previously, different dates applied to different benefits, with a deadline of the end of the tax year in which the benefit was provided applying to many.

Better to pay the tax

When thinking about whether to 'make good' to reduce the tax, remember that as the tax rate is less than 100%, you will always be better off paying the tax than making good. A higher rate taxpayer will only save £40 in tax for every £100 'made good' – better to pay the £40 tax and keep the remaining £60.

Quote of the month…

"We cannot always build the future for our youth, but we can build our youth for the future." - President Franklin D. Roosevelt - deceased.

First-year allowances for cars

It is possible for a business to set the full cost of a car against profits in the year of the purchase if the car is a low emissions car that qualifies for the first-year allowance. A 100% first-year allowance is available in respect of cars that meet the definition of a 'low emission car' for capital allowances purposes.

To qualify, the expenditure must be incurred before 31 March 2021 – the deadline was recently extended by three years.
To be a qualifying low emission car, the car must satisfy certain conditions. A low emission car is one that is either electrically propelled or one in respect of which the CO_2 emissions are below the level specified in the legislation. This is set at 75g/km where the expenditure is incurred on or after 1 April 2015 and before 1 April 2018. The threshold is reduced to 50g/km for expenditure incurred on or after 1 April 2018 and before 1 April 2021.

Further, first-year allowances are only available for expenditure on new and unused low-emission cars. Expenditure on second-hand cars does not qualify for the first-year allowances, although writing down allowances are available. Likewise, new cars with emissions above the threshold are not eligible for the first-year allowance, although writing down allowances (at 18% or 9% depending on the emissions level) can be claimed.

Private use

Where the car is used for both business and private use, the first-year allowance must be reduced proportionately to reflect the private use.

Example

Jed is a sole trader. He buys a new low emission car with emissions of 60g/km, which costs him £16,000. He uses the car 80% for business and 20% for private. He claims a 100% first-year allowance. The allowance is proportionately reduced to reflect the private use. The allowance available to set against profits is therefore £12,800 (80% of £16,000).

Not mandatory

It is not mandatory to claim a first year allowance for a car which qualifies. It may be beneficial not to claim where claiming the full allowance would otherwise create a loss or waste personal allowances. It is also possible to tailor the claim to suit the taxpayer's circumstances. Writing down allowances can be claimed for any expenditure not relieved by means of a first-year allowance.

Electric charge points

As announced in the 2016 Autumn Statement, expenditure incurred on or after 23 November 2016 and on or before 31 March 2019 (corporation tax) or 5 April 2019 (income tax) on electric charge points will also qualify for a 100% first-year allowance.

New allowances for trading and property income

In his 2016 Budget speech, the Chancellor announced two new allowances would be introduced from April 2017 for money earned from `the sharing economy'. One allowance will be for trading income and the other for property income.

Trading income allowance

A new allowance of £1,000 will be available for people who make money from selling goods or providing services. Under current rules, small amounts of trading income, for example from undertaking occasional jobs or selling goods on eBay must be declared to HMRC and, to the extent that the income is not covered by the personal allowance, the income is taxable.
However, once the new allowance is introduced from April 2017, income from trading which is covered by the new allowance will not need to be declared to HMRC and can be enjoyed tax-free.

Where trading income exceeds £1,000, traders will have the option of working out their taxable profit in the usual way by deducting expenses from income, or instead they can choose to deduct the allowance (rather than actual expenses) from their gross income. This will be beneficial where expenses are less than £1,000 a year or where the trader wishes to avoid the hassle and expense of recording expenses.

Example 1

Holly is employed in an office, in respect of which she earns £15,000 a year. She also sells cupcakes locally, from which she makes £800 a year.

In 2016/17 she will need to declare the income from her cupcake business on the self-employed pages of her tax return and pay tax on the profit.

New allowances for trading and property income (continued)

However, as a result of the introduction of the new trading allowance for 2017/18, she will no longer need to tell HMRC about her income as it is fully covered by the £1,000 allowance. She will no longer need to pay tax on the income.

Example 2

Beth has a small business selling knitted toys on e-bay. Her income is £3,000 a year and her expenses are £750.

Although she will need to declare the income on the self-employed pages of her tax return for both 2016/17 and 2017/18, for 2016/17 her taxable profit will be £2,250 (£3,000 less expenses of £750). For 2017/18, she can instead choose to deduct the new allowance of £1,000 from her income rather than the actual expenses. This will give her a lower profit figure of £2,000, saving her time and tax.

Property allowance

The second allowance to be introduced from April 2017 is in respect of income from property. It will also be set at £1,000 and will allow people to receive small amounts of property income tax free. This will mean that people who earn less than £1,000 from, say, renting out their driveway or offering storage in their loft, will no longer need to tell HMRC about this income or pay tax on it.

Where income is in excess of £1,000, taxpayers will have the option of computing their profit in the usual way (income from property less associated expenses) or by deducting the allowance from their gross income. As with the trading allowance, this will be beneficial if actual expenses are less than £1,000.
The new allowance does not affect the option of receiving income from letting a room in your house tax-free under the rent-a-room scheme.

Need to know: Where trading or property income is less than £1,000, it will no longer need to be declared to HMRC from 6 April 2016.

VAT Flat rate scheme – is it for me?

The VAT flat rate scheme is an optional simplified accounting scheme for small businesses. The scheme is available to businesses that are eligible to be registered for VAT and whose taxable turnover (excluding VAT) in the next year will be £150,000 or less. Once in the scheme, a business can remain in it as long as its taxable turnover for the current year is not more than £230,000.

The flat rate scheme is designed to simplify the recording of sales and purchases. Under the scheme, a business works out the VAT that it is required to pay over to HMRC by applying a flat rate percentage to its gross (VAT-inclusive) turnover. The flat rate percentage depends on the type of business. The percentages for each business sector can be found on the gov.uk website at www.gov.uk/vat-flat-rate-scheme/how-much-you-pay. The percentages are all less than the standard rate of VAT of 20%, reflecting the VAT that would be recovered on purchases.

Example

Jack is registered for the flat rate scheme. In a particular accounting period his turnover is £12,000. The flat rate percentage for his sector is 14%. Jack must pay VAT of £1,680 (14% of £12,000) over to HMRC. He does not need to work out the VAT on purchases.

Advantages

The main advantage is that it reduces the record keeping burden, as it is not necessary to keep records of the VAT incurred on purchases. As the VAT percentages are averages it is possible that the business may pay less VAT than accounting for VAT under the traditional rules, particularly if purchases are low. However, the business may also pay more if purchases are higher than average – you may need to do the maths to see if it is for you.

Businesses also enjoy a discount of 1% from their flat rate percentage during their first year in the scheme.

Limited cost businesses

From 1 April 2017, a new flat rate percentage of 16.5% applies to a 'limited cost business'. This is one whose VAT inclusive expenditure on goods is either less than 2% of their VAT inclusive turnover in a prescribed accounting period or greater than 2% but less than £1,000 if their prescribed accounting period is one year. The figure of £1,000 is adjusted accordingly for periods that are not one year. In determining whether this test is met, capital expenditure, food and drink for consumption by the flat rate business or its employees, and vehicle, vehicle parts and fuel (except where the business is one that carries out transport services) are excluded from the calculation.

However, a business with a VAT inclusive turnover of £20,000 in an accounting period would only need to incur expenditure of £400 or more to fall outside the definition of a limited cost business – for most businesses this will be doable, even taking account of the exclusions.

Ruling in key employment status case

An employment tribunal has ruled that Uber cab drivers do have worker' rights. Could the decision have knock-on tax effects for your business?

A case of employment. The Uber case involved taxi drivers who worked under the company's name, purportedly on a self-employed basis. The case drew so much interest that even before the judgement was published the Prime Minister called for a review of worker's rights where similar working arrangements exist.

The decision. The employment tribunal ruled that most of the time the drivers were working they did so as workers (which for tax purposes would put them in the same position as employees) of Uber. While the decision is sure to be appealed, if it's upheld it won't just be employment rights at stake, HMRC will be ready to pounce and demand that Uber applies PAYE tax and NI to drivers' income. This case is just one of several high-profile employment status disputes with which HMRC is currently involved, and it's clear that official momentum is building towards a general attack on businesses who pay workers on a self-employed basis.

Time to assess risk. While waiting for the government and HMRC to make their next move it's a good time to review your arrangements with your workers who aren't on your payroll. The following will help you identify arrangements which are, or are not, at risk from an attack by HMRC:

1. No risk – where a worker provides their personal services through a company or partnership you don't have to worry. The onus rests with them to decide whether or not PAYE tax and NI applies, and pay for it.

2. Low or not at risk – you pay an individual for a combination of goods and services, for example, someone that redecorates your offices isn't a problems but paying a handyman on a regular basis might be.

3. High risk – you pay an individual for services only and they work on a continuous or regular basis, say as a bookkeeper. In this situation you should consider if the terms or work make them an employee.

If you identify high risk workers, ask your accountant how to reduce the risk or whether you should put them on the payroll.

The government has ordered a review of all similar workers. HMRC will be involved because PAYE is at stake. Consider the status of self-employed individuals who work for you before the review starts.

This could be the thin "end of the wedge" if HMRC seek to challenge the status of self-employed people who work for you!

'No excuses' for auto enrolment mistakes say The Pensions Regulator

The Pensions Regulator is reminding employers and their advisers, that they need to comply with their auto enrolment duties or face penalties:

'Being ill or short-staffed isn't a good enough excuse for your clients failing to comply with their legal duties. Our latest compliance and enforcement report shows that the number of small and micro employers receiving fines has risen after tribunal judges rejected what the employers claimed were 'reasonable' excuses.

As with any other business activity, if an employer is too unwell to complete their AE duties, they'll need to find someone else who can. Automatic enrolment is ultimately the employer's legal responsibility, so whether it's due to pension provider failings or illness, a judge won't consider an excuse to be 'reasonable', if there's something they or someone else could have done to remedy the situation in time.

TPR's latest 'Compliance and enforcement Quarterly bulletin' reports that instances of penalties have risen but so have the amount of employers who are 'staging' for auto enrolment.

They have also sent over 6,000 letters to employers reminding them that their deadline for compliance is 31 December 2016.

Please contact us if you would like any help with your duties.

The Compass Accountants App
The Calculator tools and what they do

Following the release of the recently developed ‘Compass Accountants App’, we have received fantastic feedback from clients, especially regarding the mileage GPS tracking system and the receipt management tools- which allow you to precisely track your travel expenses and digitally store all of your receipts.

Mobile technology has become an intrinsic element of modern business- for example, did you know that over half of the visitors to your website will now view it on a smartphone or tablet- and over 85% of businesses now use smartphone apps?

As trusted accountants, we strive to move with the times and aim to provide the tools that will enable our clients to work more efficiently -and the Compass App has been designed specifically to do this.

As well as the GPS mileage tracking system and the receipt management tools, the Compass App also offers 15 different types of calculator.

APR -Want to know the APR based on a nominal rate of interest? Just enter the figures and tap ‘calculate’.

VAT- Use this calculator to work out the amount of VAT included in any figure, or the VAT that needs to be added to a VATexclusive amount.

Stamp Duty -This calculator determines the amount of stamp duty chargeable on the purchase of property or shares. Stamp Duty is a complex tax, so please contact Compass directly if you are unsure of how it is applied.

Loan -This calculator helps you work out the amount of interest and fixed monthly repayments on any loan.

Inheritance Tax- Careful planning is required whenever Inheritance Tax is involved. This calculator provides a simple answer to the amount of Inheritance Tax payable if little or no planning is undertaken.

Mortgage- This mortgage calculator works out how much monthly repayments will be depending on the size of the mortgage, the term of the loan and the current interest rate being charged.

Contractors- Enter your daily or hourly rate of pay into this calculator and it will show your monthly and annual contract values and your expected monthly take-home pay.

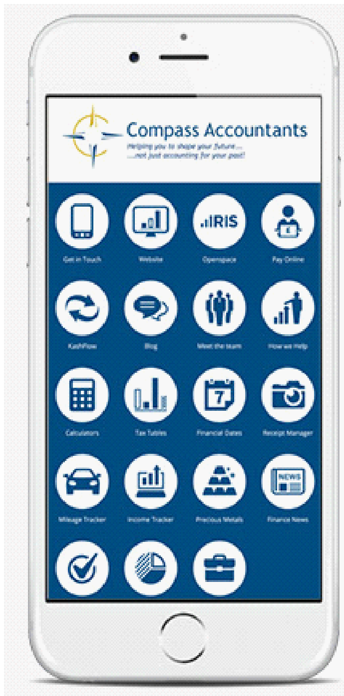
Savings- This calculator enables you to calculate the growth in your savings over a fixed period and how much you could expect in interest if you reinvest the total amount at the end of the term.

Payslip- Simply enter your tax code and gross salary and this calculator will show you how much your net pay will be after tax and NI deductions.

Company Car- How much will you be taxed if you have the benefit of a company car? Just enter the details in this calculator and it will show you how much tax you will have to pay for the company car and related fuel benefits.

Income Tax- Want to know how much your annual take-home pay will be? Just enter the amount of your weekly or monthly pay and you’ll be able to see the total deductions for tax and NI and your net earnings.

Increased Profit- Want to see what a 10% increase in sales will do to your profitability? Enter the figures from your latest accounts and this calculator allows you to use ‘what-if’ options to see what happens to your net profit.



Dividend vs Salary- Is it more advantageous to take profits from your business as salary, or dividends? Just enter your net profit figure and you’ll see what the different answers are. *(Note- This is to be used as a guide only- Contact Compass for more professional advice.)*

Corporation Tax- Enter your profits for the year and you’ll see how much Corporation Tax you’ll have to pay and what your Profit After Tax will be.

Income Tax- Enter your gross pay and whether you are paid weekly or monthly and you’ll see how much tax and NIC you’ll pay and what your take-home pay will be.

All these calculators are included with the Compass App which is FREE - even if you aren’t a Compass client, (so feel free to pass the details on to friends and colleagues!)

The app can be downloaded directly from iTunes or Google Play (by searching for Compass Accountants) – or alternatively go to our home page and click the link to download them directly.

If it sounds like the App will be of benefit to you - don’t hesitate and download yours free from the Compass website today…

Client Focus - The Mary Rose Trust

This month, we catch up with client Sally Tyrell, the Head of Development at The Mary Rose Trust, who explains how the latest £5 million museum makeover has allowed visitors to experience the Tudor warship in a whole new way…

34 years ago, back in 1982, The Mary Rose was raised from the depths of the Solent and since then the ship has become a British icon and major attraction within Portsmouth Historic Dockyard. Having sunk nearly 500 years ago, the Mary Rose is unique in that it is the only surviving 16th century warship on display, anywhere in the world.

The ship offers an unrivalled insight into Tudor life, with over 19,000 artefacts from the crew to their personal possessions and professional tools – and even the skeleton of the ship's dog. It is no wonder that the Mary Rose Museum has earnt the title of 'England's Pompeii' (a phrase that was coined by the famous Historian, David Starkey).

Earlier this year, the Mary Rose underwent a further £5 million makeover, in a project that enabled the removal of the black drying tubes that surrounded the ship. This allows visitors to experience Henry VIII's warship in a whole new way, offering uninhibited views and providing the most intense experience of what life was like for its crew.

"Everything on board the ship, from the crew to their possessions were found in the ship and many thousands are on display for visitors to see" explains Sally Tyrell, Head of Development at the Trust. "Since this latest phase of work, the remaining hull can now be seen on all three levels and in all nine of galleries, meaning wherever you are in the museum, you can see the hull and relate it back to the artefacts."

A purpose built, state of the art museum was constructed and opened in May 2013 which reunited the hull with her unique collection of artefacts. In November 2015 the Museum closed in order for the full reveal of the hull to take place, with the new visitor experience opening to visitors again in July 2016.

"The removal of the air-drying tubes means we are now able to reveal so much more about life on the ship," adds Sally, "For example, we now project members of the crew directly on to the ship, demonstrating how they would have functioned both in war and peacetime."

"These new additions really introduce *details*- not just about the ship but its crew and their human endeavour. You can follow the carpenter, master gunner, archers, the cook and many more. It really turns the wreck into a living ship."

The overall investment of both phases of the development has cost a total of £39 million pounds. Over the years the Trust has received funds from The Heritage Lottery Fund as well as the support of many other trusts, foundations and individuals.

"Despite the Mary Rose being internationally known, we are an independent charity and receive no core government funding or grants, so we rely on income from our visitors and other money raised by ourselves. In addition we hire the venue, offering the whole museum to host seated dinners, receptions, talks and presentations, for businesses and individuals. It's a unique venue for a gathering. In fact, we even had our first wedding this year!"

Next year The Mary Rose celebrates 35 years since being raised and Sally and the team are already planning celebrations and events including a reunion of the divers that helped bring her up.

Working with Compass

The Mary Rose has been a client of Compass Accountants for over eleven years now, as Mrs Sue Wright, Head of Finance at the Trust explains: "I joined The Mary Rose Trust back in 2013 and by then Compass had established a very strong working relationship with the charity. Since I have worked with them, they have always provided a professional and tailored service both in answering ad hoc queries, preparation of annual accounts and audits."

"Compass have always accommodated our deadlines for accounts and audits and respond to queries quickly they consistently take both a professional and pragmatic approach."

"Being a small organisation, it really helps to work with someone who is always available to offer good advice. I really appreciate that I can call Compass with a query and speak to someone who understands and has knowledge of our organisation."

If you would like to find out more about the Mary Rose, or you would like to support the charity by making a donation go to www.maryrose.org

Tax Diary
January/February 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.
1 February 2017	Due date for Corporation Tax for years ended 30 April 2016.
19 February 2017	PAYE and 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.

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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