Compass Accountants

Newsletter - January/February 2018

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

TaxAngles - For proactive tax planning

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Tax-free rental income of £8,500

By making the most of the rent-a-room relief and the £1,000 property income allowances, it is possible to receive tax-free rental income in 2018/19 of £8,500 (while utilising your personal allowance elsewhere).

Rent-a-room

Rent-a-room relief is available where you let a room to a lodger or lodgers in your own home. The home does not have to be owned – the relief is also available where you rent a property.

Under the scheme, rental income is tax-free up to £7,500. Where two or more people are entitled to the rental income, the rent-a-room limit is halved, so each person can receive up to £3,750 tax-free.

Where the rental income from letting rooms to lodgers in your house exceeds £7,500 you have a choice. You can either deduct £7,500 from the total rental income and pay tax on the balance or you can work out the actual profit in the usual way. If you make a loss, it is better not to claim rent-a-room relief as you will lose the benefit of the loss.

Property allowance

From 6 April 2017, a new property allowance is available for all types of rental income. Where the rental income is less than £1,000, it does not need to be declared to HMRC. Where it is more than £1,000, as with rent-a-room you have the choice of paying tax on the extra above £1,000 or working out the rental profit in the same way.

No double relief

It is not possible to claim both rent-a-room relief and the property allowance if you let a room to a lodger in your own home, so you must choose. As the rent-a-room threshold is higher, this is the one to pick.

Other sources of rental income

But, if you have another source of rental income as well, for example, a property you let out or if you rent out your drive, you can claim the property allowance in addition to rent-a-room relief.

Case study

Paula works as an administrative assistant and earns £20,000 in 2017/18. To make some extra money, she lets out a spare room in her house to a lodger and receives rental income of £8,000 in 2017/18. As she lives near a popular sporting venue, she also lets out her drive when there are major sporting events on. In 2017/18, she receives income of £1,250 from that source.

She claims rent-a-room relief in relation to the income from her lodger, receiving £7,500 tax-free and paying tax on the remaining £500. She also claims the property allowance to set against the rental income from letting out her driveway, receiving £1,000 tax-free and paying tax on the balance of £250. Her personal allowance is set against her salary.

By using both allowances, she is able to enjoy a tax-free rental income of £8,500.

Quote of the month…

"The future you have, tomorrow, won't be the same future you had, yesterday" - Chuck Palahniuk, Author

SDLT – how much will you pay?

Stamp duty land tax (SDLT) was the headline-grabbing measure in the Autumn Budget on 22 November 2017, with the announcement that first-time buyers will no longer have to pay SDLT on the first £300,000 when they buy their first home, as long as the purchase price does not exceed £500,000.

When it comes to SDLT, not everything is equal and the amount that you pay depends on whether you are a first-time buyer, have only one residential property, or whether you are buying a second or subsequent residential property.
SDLT is a stepped tax, being calculated at the appropriate rate on each slice of the consideration. The rates for residential properties are as follows:

Band	Standard rate	First-time buyer (consideration not more than £500,000)	Second and subsequent residential properties
£0 to £40,000	0%	0%	0%
£40,000 to £125,000	0%	0%	3%
£125,001 to £250,000	2%	0%	5%
£250,001 to £300,000	2%	0%	5%
£300,001 to £975,000	5%	5%	8%
£975,001 to £1,500,000	10%	10%	13%
Over £1,500,000	12%	12%	15%

First-time buyers

Lucy is a first-time buyer. She completes on her first home on 1 December 2017, which she buys for £400,000.
As the property does not cost more than £500,000, she pays SDLT at the first-time buyer rates as follows:

On first £300,000 @ 0%	£0
On next £100,000 @ 5%	£5,000
Total SDLT payable	£5,000

Not first-time buyers, only one residential property

Louise and John are moving to a new area. They have sold their previous home and complete on the sale of their new home on 1 December 2017. It is their only residential property. The new home costs £400,000.
The SDLT they must pay is calculated using the standard rates as follows:

On first £125,000 @ 0%	£0
On next £125,000 @ 2%	£2,500
On remaining £150,000 @ 5%	£7,500
Total SDLT payable	£10,000

Second and subsequent residential properties

Jake has a number of buy-to-let properties. He buys another property, costing £400,000 to add to his portfolio. The purchase completes on 1 December 2017. As Jake has more than one residential property and the new property is not replacing his main residence, he must pay the stamp duty supplement.
The SDLT payable is calculated as follows:

On first £125,000 @ 3%	£3,750
On next £125,000 @ 5%	£6,250
On remaining £150,000 @ 8%	£12,000
Total SDLT payable	£22,000

Paying the right rates

The amount of SDLT payable on a property costing £400,000 will range from £5,000 where the buyer is a first-time buyer to £22,000 where the buyer has at least one other residential property and the supplement applies. The SDLT payable at the standard rate in all other cases is £10,000.

National Minimum Wage and sleep-in shifts

There has, historically, been some confusion as to whether, and when, the National Living Wage (NLW) or the National Minimum Wage (NMW) needs to be paid to workers while they are sleeping. HMRC have recently launched a new compliance scheme for social care employers who may have incorrectly paid workers below the legal minimum for sleep-in shifts.

When must the NLW/NMW be paid?

The extent to which a worker must be paid when sleeping between duties depends on whether the worker is still regarded as 'working'. A worker who is found to be working, even though he or she is asleep, is entitled to be paid the NLW or NMW, as appropriate for their age, for the entire time that they are at work.

A worker may be regarded as working while they are asleep if, for example, there is a statutory requirement for them to be present and they would face disciplinary action if they left the workplace. An example of this may be a person who works overnight shifts in a care home and sleeps on the premises, but there is a statutory duty for someone to be present. Such a person would be considered working for the entire shift, even when sleeping, and would be entitled to the NLW/NMW.

By contrast, a person who works in a pub and lives in a flat above the pub is not likely to be regarded as working, even if they are required to sleep there so someone is on the premises to reduce the chance of being burgled.

Social Care Compliance Scheme

The Social Care Compliance Scheme (SCCS) was launched in November 2017 to help employers in the social care sector with historic underpayments in relation to 'sleep in shifts' pay arrears without suffering financial penalties.

In July 2017, the Government announced that they would waive all financial penalties in relation to arrears arising before that date in respect of NMW underpayments for sleep-in shifts. Future underpayments will be subject to the usual penalties.

An interim National Minimum Wage enforcement approach for the social care sector was published on 1 November 2017. Social care employers at risk of NMW underpayments for sleep-in shifts will be offered the opportunity to opt-in to the SCCS (subject to meeting minimum criteria and at the discretion of HMRC). Social care employers who participate in the scheme will be offered a period of 12 months in which to conduct the self-review with access to HMRC technical support and a further three months to pay all arrears due to workers.

Providing that all arrears are paid within this timescale, the employer will not be liable to financial penalties and naming and shaming. Regardless of when a social care employer enters into the SCCS, a final deadline of 31 March 2019 applies by which all arrears must be paid to workers.

Social care employers who choose not to opt into the SCCS will not be offered further concessions, will be subject to the usual investigative powers and will face the usual financial penalties (other than in relation to sleep-in shift arrears relating to periods before 26 July 2017).

Protect your lifetime allowance

The pensions lifetime allowance places a cap on overall tax-relieved pension savings. Pension savings in excess of the lifetime allowance are subject to a lifetime allowance charge, which effectively claws back tax relief.

The lifetime allowance was reduced from £1.25 million to £1 million with effect from 6 April 2016. People who had pension savings in excess of £1 million at that date, but not more than £1.25 million can protect their lifetime allowance from the effect of the reduction.
There are two types of protection available – individual protection 2016 and fixed protection 2016.

It was announced in the Budget on 22 November 2017 that the lifetime allowance would be increased in line with inflation to £1.030 million from 6 April 2018.

Individual protection 2016

Individual protection 2016 is available where an individual has tax-relieved pension savings on 5 April 2016 worth between £1 million and £1.25 million. The protection fixes the lifetime allowance at the lower of their pension savings on that date and £1.25 million. Thus a person with pension savings of £1.2 million on 5 April 2016 would be able to protect their lifetime allowance at £1.2 million.
Where individual protection is in place, a person can continue to add to their pension savings – but they must pay a tax charge on money taken from their pension to the extent that it exceeds the protected lifetime allowance.

The lifetime allowance has suffered previous reductions and other protections may be in place. A person can still apply for individual protection 2016 if they also have enhanced protection, fixed protection, fixed protection 2014 or fixed protection 2016. Where another protection is in place, individual protection 2016 will lie dormant until previous protections are either lost or given up. HMRC must be notified when this happens. However, an application for individual protection 2016 cannot be made by a person who has primary protection or individual protection 2014.

An application for individual protection 2016 can be made online.

Fixed protection 2016

The second type of protection available is fixed protection 2016. This fixes the lifetime allowance at £1.25 million. However, fixed protection 2016 is only available if neither the individual nor his or her employer have added to the pension since 5 April 2016 and the individual has opted out of any workplace schemes (e.g. under auto-enrolment) since 5 April 2016. Further, an individual who has enhanced protection, primary protection, fixed protection or fixed protection 2014 (which protect the allowance from earlier reductions) cannot apply for fixed protection 2016.

Where fixed protection 2016 has been granted, it is not able to add to the pension (except in very limited circumstances). If further contributions are made, fixed protection will be lost and tax will be payable on any pension in excess of the standard lifetime allowance at the time the pension is taken.

As with individual protection 2016, applications for fixed protection 2016 can be made online.

Handling Customers That Go Bust

As a business owner, your business lives and dies with your customers. Maybe not one or two, but without your pool of customers, your business simply wouldn't be able to run. So when a customer goes into administration or liquidation, it can be a difficult time for everyone. But as a supplier, you need to try and get paid for services or products you have already provided. This can mean jumping through a few hoops in order to claim what you are owed. So how does it all work?

Top 3 Reasons Businesses Fail

There are a variety of reasons a businesses could fail. Some of them are more common than others, particularly business in certain industries or of certain sizes. But there are some core concepts that mean a business of any size can disappear, sometimes overnight. We've pulled together the 3 most common reasons businesses in the UK fail, so you can be on the lookout for the warning signs:

1. **Lack of Cash –** Cash is king, and for very good reasons. You can't pay your bills without it! The single biggest cause of business failure in the UK is still all about money. After all, even the biggest businesses can't pay their suppliers if all their money is tied up in unpaid invoices.

2. **No Plan –** Lack of planning comes a close second. Without a solid business plan, there is no knowledge of where the business is going and no clear route to take. Without a clear plan, there is no unified direction for everyone in the business to pull towards.

3. **Heavy Reliance On One Or Two Customers –** Too often businesses, big or small, become complacent when they land one or two realty big accounts. Sometimes it's because they don't believe they have the bandwidth for more customers, for others it's because it's easier to just focus on serving those customers. But what happens if one of those clients goes bust?

What customer liquidation means for you?

Sometimes even with the best credit control procedures in place and a strong product offering, business can still go into liquidation. And most business owners are worried about preventing it from happening to them, which is always a great start. But what if it isn't you that goes into liquidation, but one of your customers? Say your biggest account suddenly announced that they had gone bust - seemingly overnight – without paying your last invoice. What would you do?

Claiming Money From Companies In Administration

If you discover one of your customers has gone into liquidation, you may be wondering if you will ever get paid. And in some cases, you might not. It all depends on how far down on the creditor list you are. If you believe your customer is subject to insolvency proceedings (and you haven't been contacted), then you can:

- Searching Companies House (for a company insolvency)
- Contacting the Insolvency Enquiry Line on 03006780015 or emailing insolvency.enquiryline@insolvency.gsi.gov.uk
- Checking the public notices sections of The Gazette

Or, if you don't want all of the hassle, you can hire an external debt collector to do it for you. That's where Debtcol can help you out.

At Debtcol, they specialise in helping businesses reclaim money they are owed from debtors who don't want to pay. Whether you need to collect a specific, troublesome non-payment, or require the efficient recovery of multiple late payments, you can count on the assertive but respectful and courteous team at Debtcol.

Contact Paul on 01489 550496, or www.debtcol.co.uk

Debtcol
Intelligent Debt Collection

Budget Information - From November 2017

Pension contribution increases and temporary staff

The Pensions Regulator is reminding employers that they need to comply with their auto enrolment duties

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Automatic enrolment still applies to temporary staff this Christmas

With the festive season fast approaching, employers may be planning to take on temporary staff to help their business survive the rush. Automatic enrolment applies to these employees in the same way as permanent employees, even if they will only be working for a short time.

Employers will still need to assess temporary staff and auto enrol any eligible employees into a qualifying pension scheme. Once auto enrolled both the employer and employee must make pension contributions.

It is possible to apply postponement to temporary employees, which has the effect of delaying some of the auto enrolment duties, but TPR are warning this must be dealt with correctly.

Are you ready to increase contributions?

TPR are reminding employers that they need to be ready to deal with the increased auto enrolment pension contributions which apply from April 2018. Employers and their employees need to be aware of how the changes will affect them, including checking that the employer's payroll software is compatible.

Guidance is included on TPR website on this issue. From 6 April 2018, the minimum contributions employers and staff pay into their automatic enrolment pension goes up to 2% for employers and 3% for employees. This increase has been planned since automatic enrolment started. Further increases in rates are scheduled for April 2019.

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

Delay to roll out of Tax free childcare

The government have announced a delay to the roll out of tax free childcare which was expected to be fully implemented by the end of 2017.

The government have announced a delay to the roll out of tax free childcare which was expected to be fully implemented by the end of the year. From 24 November 2017 the service is available to parents whose youngest child is under 6 or who has their 6th birthday on that day. Parents can apply online through the childcare service which can be accessed via the Childcare Choices website.

In April 2017, HMRC started rolling out the childcare service via a single website through which parents can apply for both 30 hours free childcare and Tax-Free Childcare. The roll out started with parents of the youngest children first. HMRC acknowledge that over the summer some parents didn't receive the intended level of service when using the website and that they have subsequently made significant improvements. For those parents who have had difficulties in accessing the service, compensation may be available: see childcare service compensation.

Over the coming months, HMRC will gradually open the childcare service to parents of older children, whilst continuing to make further improvements to the system. HMRC hope this strategy of managing the volume of applications will result in prompt eligibility responses when parents apply, with '*almost all parents receiving a response within five working days, and most getting their decision instantly'*.

All eligible parents will be able to apply by the end of March 2018. Parents will be able to apply for all their children at the same time, when their youngest child becomes eligible.

Tax-Free Childcare is the new government scheme to help working parents, both employed and self employed, with the cost of childcare. For every £8 a parent pays in, the government will pay in an extra £2. Parents can receive up to £2,000 per child, per year, towards their childcare costs making a total amount of £10,000. Higher limits of £4,000 and £20,000 apply for disabled children.

To qualify for Tax-Free Childcare parents and partners in the household must generally meet a minimum income level of on average £120 a week and each earn less than £100,000 a year.

The scheme will eventually be available for children up to the age of 12, or 17 for children with disabilities. Those eligible will be able to apply for all their children at the same time.

Budget Information - From November 2017 - Continued

Employer Supported Childcare, usually by way of childcare vouchers, will remain open to new entrants until April 2018 to support the transition between the schemes and it will continue to be available for current members if they wish to remain in it or they can switch to the new scheme. It is not possible to benefit from both Employer Supported Childcare and Tax Free Childcare at the same time.

Autumn Budget 2017

The Chancellor Philip Hammond presented his first Autumn Budget on Wednesday 22 November 2017.

Increased limits for knowledge-intensive companies

The government will legislate to encourage more investment in knowledge-intensive companies under the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs). The government will:

- double the limit on the amount an individual may invest under the EIS in a tax year to £2 million from the current limit of £1 million, provided any amount over £1 million is invested in one or more knowledge-intensive companies
- raise the annual investment limit for knowledge-intensive companies receiving investments under the EIS and from VCTs to £10 million from the current limit of £5 million. The lifetime limit will remain the same at £20 million, and
- allow knowledge-intensive companies to use the date when their annual turnover first exceeds £200,000 in determining the start of the initial investing period under the permitted maximum age rules, instead of the date of the first commercial sale.

The changes will have effect from 6 April 2018. This measure is subject to normal state aid rules.

Proposed changes to Entrepreneurs' Relief

The government will consult on how access to ER might be given to those whose holding in their company is reduced below the normal 5% qualifying level as a result of raising funds for commercial purposes by means of issues of new shares thus diluting their holding. Allowing ER in these circumstances would incentivise entrepreneurs to remain involved in their businesses after receiving external investment.

This proposal is welcome and addresses a particular problem which can arise. ER broadly requires a holding of 5% of the ordinary share capital. It may be that significant external investment is made which would reduce the holding to below 5%.

Improving Research and Development (R&D)

A number of measures have been announced to support business investment in R&D including:

- an increase in the rate of the R&D expenditure credit which applies to the large company scheme from 11% to 12% where expenditure is incurred on or after 1 January 2018
- a pilot for a new Advanced Clearance service for R&D expenditure credit claims to provide a pre-filing agreement for three years
- a campaign to increase awareness of eligibility for R&D tax credits among SMEs
- working with businesses that develop and use key emerging technologies to ensure that there are no barriers to them claiming R&D tax credits.

Business rates

Business rates have been devolved to Scotland, Northern Ireland and Wales. The business rates revaluation took effect in England from April 2017 and resulted in significant changes to the amount of rates that businesses will pay. In light of the recent rise in inflation, the government will provide further support to businesses including:

- bringing forward the planned switch in indexation from RPI to CPI to 1 April 2018
- legislating retrospectively to address the so-called 'staircase tax'. Affected businesses will be able to ask the Valuation Office Agency to recalculate valuations so that bills are based on previous practice backdated to April 2010.

SDLT relief for first time buyers

The government has announced that first time buyers paying £300,000 or less for a residential property will pay no Stamp Duty Land Tax.

First time buyers paying between £300,000 and £500,000 will pay SDLT at 5% on the amount of the purchase price in excess of £300,000. First time buyers purchasing property for more than £500,000 will not be entitled to any relief and will pay SDLT at the normal rates.

The new rules apply to transactions with an effective date (usually the date of completion) on or after 22 November 2017. This measure does not apply in Scotland as this is a devolved tax. This measure will apply in Wales until 1 April 2018, when SDLT will be devolved to Wales.

Budget Information - From November 2017 - Continued

Advisory fuel rates for company cars

New company car advisory fuel rates have been published which took effect from 1 December 2017.

New company car advisory fuel rates have been published which took effect from 1 December 2017. The guidance states: *'You can use the previous rates for up to one month from the date the new rates apply'*. The rates only apply to employees using a company car.

The advisory fuel rates for journeys undertaken on or after 1 December 2017 are:

Engine size	Petrol
1400cc or less	11p
1401cc - 2000cc	14p
Over 2000cc	21p

Engine size	LPG
1400cc or less	7p
1401cc - 2000cc	9p
Over 2000cc	14p

Engine size	Diesel
1600cc or less	9p
1601cc - 2000cc	11p
Over 2000cc	13p

HMRC guidance states that the rates only apply when you either:

- reimburse employees for business travel in their company cars
- require employees to repay the cost of fuel used for private travel

You must not use these rates in any other circumstances.

If you would like to discuss your car policy, please contact us.

Trusts Registration Service

HMRC have launched a new Trusts Registration Service, so that trustees can register their trust online and provide information on the beneficial owners of the trust.

HMRC have launched a new Trusts Registration Service (TRS), so that trustees can register their trust online and provide information on the beneficial owners of the trust. The new service launched in early July for trustees and replaces the 41G (Trust) paper form, which was withdrawn at the end of April.

Under the existing self assessment rules, the trustees (or their agents) must register details of a trust with HMRC by 5 October of the year after a liability to Income Tax or Capital Gains Tax (CGT) first arises. The registration process, which will need completing via TRS, includes providing information about the beneficiaries of the trust.

In subsequent years, or where the trust is already registered for self assessment, the trustees (or their agent) of either a UK or non-UK trust that incurs a UK tax liability are required to provide beneficial ownership information about the trust, using the TRS, by 31 January following the end of the tax year.

HMRC have advised that agents will be able to register on behalf of trustees from October 2017 and agents and lead trustees can enter updates for changes of circumstances from early 2018. HMRC have also confirmed that in this first year of TRS there will be no penalty imposed where registration is completed by 5 January 2018 for trusts whose first tax assessment year is 2016/17.

A Self Assessment Trust and Estate Tax Return (SA900) must still be submitted after the end of each tax year, reporting any income and gains. A TRS update is required each year in parallel with income tax returns; however an update is also required when any tax charge arises for example IHT principal charges or SDLT. From 17 November 2017 the method of registering a trust has been simplified such that an agent can access TRS directly rather than email HMRC for approval to access.

If you would like help or guidance on trusts please contact us.

Delay in the abolition of Class 2 NIC

The government has announced that it will introduce legislation to abolish Class 2 national insurance contributions and to make further proposed changes in 2018.

The government has announced that it will introduce legislation to abolish Class 2 national insurance contributions (NIC) and to make further proposed NIC changes in 2018.

The measures the legislation will implement, will now take effect one year later than previously announced, from April 2019. These measures include the abolition of Class 2 NIC paid by self employed individuals, reforms to the Class 1A NIC treatment of termination payments (the £30,000 rule) and changes to the NICs treatment of sporting testimonials.

On 2 November 2017 the Government announced a one year delay to the abolition of Class 2 NICs. Class 2 NICs will now be abolished from 6 April 2019 rather than 6 April 2018.

The government have stated that 'the *delay will allow time for the government to engage with interested parties and Parliamentarians with concerns relating to the impact of the abolition of Class 2 NICs on self-employed individuals with low profits'.*

Tax Diary
January/February 2018

1 January 2018 Due date for Corporation Tax for years ended 31 March 2017.

19 January 2018 PAYE and NIC deductions due for month ended 5 January 2018. (If you pay your tax electronically the due date is 22 January 2018)

19 January 2018 Filing deadline for the CIS300 monthly return for the month ended 5 January 2018.

19 January 2018 Due date for CIS tax deducted for the month ended 5 January 2018.

31 January 2018 Last day to file 2016-17 Self-Assessment Tax Returns online.

31 January 2018 Balance of Self-Assessment tax owing for 2016-17 due to be settled today. Also first payment on account for 2017-18 due today.

1 February 2018 Due date for Corporation Tax for years ended 30 April 2017.

19 February 2018 PAYE and NIC deductions due for month ended 5 February 2018. (If you pay your tax electronically the due date is 22 February 2018)

19 February 2018 Filing deadline for the CIS300 monthly return for the month ended 5 February 2018.

19 February 2018 Due date for CIS tax deducted for the month ended 5 February 2018.

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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