Compass Accountants

Newsletter - July/August 16

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

TaxAngles - For proactive tax planning

In this month's edition…

- Overpaid tax last year - how to claim it back
- Dividend tax rules for 2016/17
- Ten tax free benefits in kind
- Landlord - interest relief restriction: deduction v tax reduction
- Taxable state benefits
- Beware….villains have eyes on your pension pot
- Compass focus - Compass sponsors up-and-coming athlete
- Compass focus - Compass announce new staff!

Overpaid tax last year – how to claim it back

The 2015/16 tax year ended on 5 April 2016. If you have overpaid tax for that year, what do you need to do to make sure that you get it back?

A tax overpayment may arise for a number of reasons. Maybe you stopped work part way through the tax year, or your tax code was wrong. Maybe you haven't claimed reliefs that you were due, or tax was deducted from your savings income and you were a non-taxpayer.

Employees

The tax code is fundamental to the operation of the PAYE system. If your tax code is wrong, the wrong amount of tax will have been deducted from your pay. This may result in you paying too much tax. You can check how much tax you should have paid by using the calculator on the HMRC website at www.gov.uk/check-income-tax.

You should receive a tax calculation (P800) from HMRC by the end of July. This will show whether you have paid too much tax. You should receive the refund from HMRC within 14 days of receiving your tax calculation. You shouldn't have to do anything, but you may want to chase it up if the refund is not received within the 14-day window.

If you have not received the P800 or do not want to wait for it to arrive, you can claim online by logging in to your HMRC account. You can also claim a refund by writing to HMRC.

Stopped work

Because of the way the PAYE system works, if you stop work part way through the tax year and do not work for the rest of that year, you may overpay tax as you will not have received the benefit of your full personal allowance during the year. You can claim a refund by completing form P50 (see www.gov.uk/government/publications/income-tax-claiming-tax-back-when-you-have-stopped-working-p50) if you are not going to be working for at least four weeks and are not claiming benefits.

Submit a tax return

If you think that you have overpaid tax for 2015/16, you may not want to wait until January 2017 before filing your tax return. When you complete your tax return, enter details of the bank account to which you want a tax refund to be made. Once the return has been filed, your self-assessment account will show that you have overpaid tax. Log on to your account and select the 'request a repayment option'.

Savings income

If you are a non-taxpayer and tax was deducted from your savings income in 2015/16 you can reclaim it by completing form R40 (see https://www.gov.uk/government/publications/income-tax-claim-for-repayment-of-tax-deducted-from-savings-and-investments-r40) and send it to HMRC.

Don't hold your breath

HMRC can be quite slow at refunding tax. They suggest on their website that taxpayers should wait five weeks after making an online claim and six weeks after making a postal claim before contacting HMRC. If you cannot wait that long and the refund has not been received, chasing them may pay dividends.

Quote of the month…

"If you want something new, you have to stop doing something old" - Peter Drucker - Management Guru

Dividend tax rules for 2016/17

A new set of rules applies to tax dividend income from 6 April 2016 onwards. Under the new rules, dividends no longer come with an attached tax credit. This means that there is no grossing up calculation, but also no tax credit to set against the tax due. However, there is a new allowance, available to all taxpayers regardless of the rate at which they pay tax, allowing them to receive the first £5,000 of dividend income tax-free.

The dividend tax rates have also changed.

The allowance

For 2016/17 the dividend allowance is set at £5,000. Although it is called an allowance, it is not really an allowance in the true sense of the word, but rather a zero rate band. Dividends that are covered by the allowance are taxed at a zero rate. However, the allowance uses up part of the income tax band into which it falls.

The rates

Once the personal allowance and the dividend allowance have been used up, dividends are taxed at the appropriate dividend rate. For 2016/17 the dividend tax rates are as follows:

- Dividend ordinary rate (to the extent dividends fall within the basic rate band) – 7.5%
- Dividend higher rate (to the extent that dividends fall within the higher rate band) – 32.5%
- Dividend additional rate (to the extent that dividends fall within the additional rate band) – 38.1%

As the dividend tax rates are less than the corresponding income tax rates, it is usually beneficial to treat dividend income as the top slice of income.

Don’t be fooled – although the dividend ordinary and additional rates for 2016/17 are less than for 2015/16, the lack of the tax credit means the actual rates of tax have increased.

Case study

Ryan is the director of his personal company. For 2016/17, he pays himself a salary of £8,000 and dividends of £50,000.
The salary uses up £8,000 of his personal allowance for 2016/17 of £11,000, leaving £3,000 remaining.

The first £3,000 of dividend income utilises the remaining personal allowance (leaving dividend income of £47,000).

The next £5,000 of dividend income is covered by the dividend allowance and is tax-free (being taxed at a zero rate). The allowance uses up the first £5,000 of the basic rate band (set at £32,000 for 2016/17), leaving £27,000 of the basic rate band available. After using the dividend allowance, £42,000 of dividend income remains.

The next £27,000 of dividend income uses up the remaining basic rate band. This is taxed at the dividend ordinary rate of 7.5% -- tax of £2,025. This leaves £15,000 of dividend income. The remaining £15,000 of dividend income is taxed at the dividend higher rate of 32.5% -- tax of £4,875.

The total tax payable on the dividend of £50,000 is therefore £6,900.

Practical tip

The new rules mean that it is no longer possible to extract dividends up to the basic rate limit free of tax, but higher and additional rate taxpayers are now able to receive dividends of £5,000 a year tax-free.

Ten tax-free benefits in kind

It is possible to provide employees with tax-free benefits where the benefit is covered by an exemption and the associated conditions are met. The following is a list of popular benefits in kind that can be provided free of tax and National Insurance.

1. Mobile phones – employers can provide employees with one mobile phone (which may be a smartphone) tax-free and meet the associated call charges, etc. However, to qualify, the contract must be between the employer and the mobile phone company – the exemption does not apply if the contract is between the employee and the phone company and the employer simply pays the bill or reimburses the employee.
2. Christmas parties – employees and their partners are able to enjoy Christmas parties or similar annual functions without triggering a benefits in kind tax charge, as long as the cost per head is not more than £150.
3. Childcare vouchers – employers can provide employees with childcare vouchers or employer-supported childcare up to a tax-free limit. Where the employee joined the childcare scheme before 6 April 2011 or is a basic rate taxpayer, the limit is £55 per week. Otherwise, the limit is £28 per week for higher rate taxpayers or £25 per week for additional rate taxpayers.
4. Parking at or near the place of work – parking costs can be significant and employees can enjoy a parking space at or near the place of work.
5. Mileage allowance payments – employees who use their own car for work can receive tax-free mileage payments up to the approved amount. This is 45p per mile for the first 10,000 business miles in the year and 25p for all subsequent business miles.
6. Removal expenses and benefits – employees who move house as a result of a job change can get tax-free help with the cost of qualifying removal benefits and expenses up to a total of £8,000.
7. Sports facilities – no tax charge arises where an employer provides sports facilities for use by staff, such as a company gym. However, the exemption does not apply if the employer pays for employees to use sports facilities open to the general public.
8. Trivial benefits – no tax charge arises on the provision of trivial benefits costing up to £50. However, where the benefits are provided to a director of a close company, the exemption is capped at £300 a year.
9. Small loans – employees can enjoy cheap or interest-free loans from their employer tax-free, as long as the cumulative outstanding balances across the business do not exceed £10,000 at any point in the tax year.
10. Cycles and cycling safety equipment – employees who cycle to work can enjoy the use of a company bike and helmet, etc. tax-free, as long as they predominantly use the bike to cycle to work or for business journeys.

Landlord – interest relief restriction: deduction v tax reduction

In his July 2015 Budget, the Chancellor dealt a blow to landlords with his announcement that from April 2017 relief for finance costs would be progressively restricted. In giving effect to the restriction, landlords would move from the current position where they are able to deduct finance costs, such as mortgage interest, in full when computing their rental profits, to one where relief is given as a basic rate tax reduction.

Phased in

The switch from deduction to interest rate reduction is to be phased in over four years, with a gradual shift away from deducting property finance costs from property income.

Tax year	% finance cost relievable by deduction	% finance costs given as basic rate tax reduction
2017/18	75%	25%
2018/19	50%	50%
2019/20	25%	75%
2020/21 onwards	0%	100%

Deduction v basic rate tax reduction

Where relief is given by deduction, the landlord obtains tax relief at his marginal rate of tax. The property finance costs are deducted in arriving at the taxable profit and that profit is taxed at the landlord's marginal rate of tax.

By contrast, where relief is given as a tax reduction, the rental profit is first calculated without taking account of the finance costs relieved by tax deduction and the tax is worked out on those profits. Effect is given to the basic rate tax reduction by deducting an amount equal to the finance costs x the basic rate of tax from the tax figure initially computed on the profits.

Example

Ian is a landlord. In each year from 2016/17 to 2020/21 inclusive, he has property income of £30,000. He pays mortgage interest costs of £6000 and incurs other expenses of £2,000. He also has a salary of £60,000 and pays tax on his property income at the higher rate of 40%.

His tax position for each of the years is as follows:

	2016/17 **£**	**2017/18** **£**	**2018/19** **£**	**2019/20** **£**	**2020/21** **£**
Property income	30,000	30,000	30,000	30,000	30,000
Expenses	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Deductible finance costs	(6,000)	(4,500)	(3,000)	(1,500)	nil
Taxable profit	22,000	23,500	25,000	26,500	28,000
Tax on profit (@40%)	8,800	9,400	10,000	10,600	11,200
Tax reduction @ 20%	0	(300)	(600)	(900)	(1,200)
Total tax	8,800	9 ,100	9,400	9,700	10,000

Summary

	2016/17 **£**	**2017/18** **£**	**2018/19** **£**	**2019/20** **£**	**2020/21** **£**
Property income	30,000	30,000	30,000	30,000	30,000
Expenses	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Finance costs	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)
Tax	(8,800)	(9,100)	(9,400)	(9,700)	(10,000)
Profit retained	13,200	12,900	12,600	12,300	12,000

As a result of the shift from relief by deduction for 100% of property finance costs to relief by basic rate reduction for 100% of finance costs, Ian's retained profit is reduced by £1,200.

Sting in the tail

Moving from deduction to tax reduction has hidden costs. The relief is given later in the calculation, which has the effect of increasing the taxpayer's taxable income. This may move him into a higher tax bracket or trigger the high income child benefit charge or the abatement of the personal allowance.

Taxable state benefits

When it comes to tax, not all state benefits are equal – some are tax-free whereas others are taxable. The following lists set out some of the most common taxable and tax-free state benefits.

Taxable benefits

The following benefits are taxable and must be taken into account in working out your taxable income:

- the state pension;
- widow's pension;
- jobseeker's allowance;
- contribution-based employment and support allowance;
- carer's allowance;
- incapacity benefits (week 29 onwards);
- bereavement allowance; and
- widowed parent's allowance.

Statutory payments (statutory maternity pay, statutory paternity pay, statutory adoption pay, shared parental pay and statutory sick pay) are also taxable.

Non-taxable state benefits

Many benefits can be received tax free. This means that they can be ignored when working out your taxable income. Likewise, they do not eat into your personal allowance.

- housing benefit;
- income-related employment and support allowance;
- working tax credit;
- child tax credit;
- income support;
- disability living allowance;
- pension credit;
- guardian's allowance;
- winter fuel payments and Christmas bonus;
- free TV licence for over 75s;
- lump sum bereavement payments;
- maternity allowance;
- industrial injuries benefit;
- severe disablement allowance;
- universal credit;
- war widow's pension; and
- young person's bridging allowance.

Child benefit

Although child benefit is a tax-free benefit, a tax charge -- the high income child benefit tax charge – applies where a person receives child benefit and they or their partner has income in excess of £50,000 per year. The charge is equal to 10% of the child benefit received for each £100 by which income exceeds £50,000 (such that once income reaches £60,000, the charge is equal to the child benefit for the year).

Where both partners have income in excess of £50,000, the charge is levied on the one with the highest income, even if that is not the partner in receipt of the child benefit. A person can choose to disclaim their child benefit, rather than receive it and pay the tax.

Beware! – villains have their eye on your pension pot

Pension scams are now hitting more investors.

Pension scams are rising!

They are being aimed at over 55's and particularly vulnerable are the over 65's.

The Financial Conduct Authority (FCA) has published that 32% of over 55's had seen a sharp rise in unsolicited telephone calls offering investments over the past year.

They also found that the most targeted section of the community are:-

- Aged over 65
- Have savings of more than £10,000 and
- Live in the South East, London and the home counties.

Cynically fraudsters target the group who are 3.5 times more likely to be taken in! This group tend to be the most vulnerable and in danger of losing everything.

It is tempting at times of such low interest rates with savings producing such poor returns that savers get tempted by unscrupulous offers of better returns.

The government's relaxation of pension rules has allowed fraudsters to use scams where innocent savers part with their assets without being fully advised on the results of their actions.

These tactics include offers to "liberate" your pension by transferring it away from a genuine pension scheme to one that allows you to cash in your pension before age 55.

Another scheme is to move your pension overseas (e.g. Malta or Hong Kong) with a promise that you will double your money over 10 years.

The scammers fail to mention that accessing your pension before age 55 breaks tax laws and risks a tax penalty of 55%. They also fail to mention that transferring your pension overseas with no intention to live abroad can also lead to a similar penalty.

All this could leave you losing your capital **and** facing a hefty tax bill!

With the ease with which access to you is achieved by emails and text messages, you really have to be on the alert.

Watch out for such phrases as:

- "once in a lifetime opportunity"
- "guaranteed returns"
- "completely tax free"
- "legal loophole"

Watch out for such projects as:

- "residential property investment opportunities"
- "offshore opportunities"
- "up front cash or loans on pensions"

These should trigger alarm bells.

Any calls for you to act in a hurry to transfer your pension pot are highly suspicious. One forum of regulated pension consultants reports receiving enquiries for 11% of such transfers which show signs of a scam!

The Scamming Industry is becoming increasingly sophisticated and they even maintain a "Suckers List" which they use to approach vulnerable people successively on the basis that if you fall for one scam you are highly likely to fall again – cynical or what?!

How do you protect yourself?

- Reject cold calls
- Don't respond or even open emails or text messages you may suspect
- Check the firm is authorised or registered with the FCA.
- Search the FCA for unauthorised firms

Check with Compass Accountants and/or your own Independent Financial Adviser.

Check with the FCA on 0800 111 6768 or www.scamsmart.fca.org.uk.

If you are a victim of fraud you can appeal to the Financial Ombudsman Service (FOS) for help.

Compass Focus - Compass sponsors up-and-coming athlete!

Compass Accountants are proudly sponsoring local athlete and potential future Olympian, 13 year old Elisha Parham.

As a pupil at Cams Hill School in Fareham, Elisha has shown great promise, competing in 100m, 200m, and 300m races as well as competing in the long-jump. Having run in numerous competitions Elisha is a member of the Southampton Athletics Club and is currently rated third girl in the under 15's for the 100m and 200m, and fourth for the 300m.

Earlier this month, Elisha's 4x 300m relay team smashed the club record by 7 seconds and as a result the team are now ranked as number 4 in the UK. She is also a member of the Wessex League team and YDL league team.

Elisha's Southampton team also competed in the indoor league in the winter, where they finished in 3rd place in the national finals after winning the regional finals.

To help her on her sporting journey, Compass have sponsored Elisha, providing her with sporting equipment including sports bag, windcheater jacket, clothing and running spikes.

Stuart Lawrance, Director of Compass Accountants said, "We are delighted to be helping Elisha on her journey as an athlete and wish her the best of luck in developing her sporting ability and achieving her goals. All the team at Compass Accountants are very much looking forward to watching Elisha's promising career develop over the coming years."

Compass Continues to Expand with New Appointments

We are delighted to announce that Compass has expanded its team with the appointment of two new Senior Payroll and Accounts Managers, Isabella Brady and Sarah McInnes.

Isabella and Sarah join Compass Accountants, following our continued expansion and the recent launch of our new office in Portsmouth.

Both Isabella and Sarah will further strengthen the Compass team bringing with them a wide and impressive background in the sector. Isabella has worked in accountancy roles for over 40 years, and brings with her strong experience of working with museums and non-for profit organisations- both of which are sectors Compass specialises in.

Isabella explains, "It's an exciting time to join the team at Compass. I'm delighted to be joining a firm with such a prominent stance in the local region. I'm hoping my experience and knowledge will contribute to the company's ongoing development."

Sarah has worked with accountancy practices for just over 16 years and has experience in all aspects of accountancy services from audit and accounts preparation, to VAT compliance, management accounts and bookkeeping.

Sarah adds "It's a great pleasure for me to join the Compass team. I was already familiar with Compass as a local practice, and was aware of their reputation as a friendly and personable team- so was very pleased when the opportunity arose. I have been made to feel very welcome and look forward to contributing to Compass' reputation and services in the region."

Stuart Lawrance, our company Director said, "The appointment of Sarah and Isabella puts us in an even stronger position to provide the highest standard of service we can, for both our existing and prospective clients. I am certain that their experience and backgrounds will deliver positive results for both Compass and its clients."

Tax Diary
July/August 2016

1 July 2016	-	Due date for Corporation Tax for years ended 30 September 2015.
6 July 2016	-	Last date for agreeing PAYE Settlement Agreements for 2015-16.
6 July 2016	-	Due date for filing forms P9D, P11D and P11D(b)
6 July 2016	-	Last date for forms P9D and P11D to be given to employees
19 July 2016	-	Pay Class 1A National Insurance (if you pay your tax electronically the due date is 22 July 2016)
19 July 2016	-	PAYE and NIC deductions due for month ended 5 July 2016. (If you pay your tax electronically the due date is 22 July 2016)
19 July 2016	-	Filing deadline for the CIS300 monthly return for the month ended 5 July 2016.
19 July 2016	-	Due date for CIS tax deducted for the month ended 5 July 2016.
31 July 2016	-	Due date for second Self-Assessment payment on account for the tax year ended 5 April 2016
1 August 2016	-	Due date for Corporation Tax for years ended 31 October 2015.
19 August 2016	-	PAYE and NIC deductions due for month ended 5 August 2016. (If you pay your tax electronically the due date is 22 August 2016)
19 August 2016	-	Filing deadline for the CIS300 monthly return for the month ended 5 August 2016.
19 August 2016	-	Due date for CIS tax deducted for the month ended 5 August 2016.

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

Gatcombe House
Copnor Road, Portsmouth
Hampshire
PO3 5EJ

Contact us:
TEL: 01329 844145 or 02393 233196
EMAIL: contact@compassaccountants.co.uk