



Compass Accountants

Newsletter - July/August 17

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

TaxAngles - For proactive tax planning

In this month's edition...

- Quote of the month
- Annual Investment Allowance
- Let property campaign
- Relief for early year losses
- Mileage payments
- PAYE settlement agreements
- Ransomware Outbreak
- Compass E-News
- Client Focus

Annual investment allowance

The annual investment allowance (AIA) is a capital allowance that enables a business to write off the cost of most items of plant and machinery in full against profits in the year in which the expenditure is incurred.

What qualifies?

The AIA is available for most items of plant and machinery. This includes capital items used in the business, such as equipment, machines, computers and vans. Also included are integral features, some fixtures, such as fitted kitchens, and also alterations to install plant and machinery and any costs of demolishing plant and machinery.

And what doesn't?

The main exclusion is cars. However, 100% first year allowances are available for new and unused cars with CO2 emissions of 75g/km or less. Where first year allowances are not available, writing down allowances are given at the rate of 18% where the car is new and the CO2 emissions are between 75g/km and 130g/km, or where the car is second-hand and the CO2 emissions are below 130g/m. For cars (new and second-hand) where the CO2 emissions are 130g/km or more, writing down allowances are given at the special rate of 8%.

Amount of the AIA

For 12 month periods beginning on or after 1 January 2016, the AIA is set at £200,000. The allowance is adjusted proportionately for accounting periods of more or less than 12 months.

Once the allowance has been fully used up, any further capital expenditure on plant and machinery will attract writing down allowances only (unless it is of a type that qualifies for a first-year allowance).

The AIA must be claimed on the tax return.

Tailoring the claim

It may not always be beneficial to claim the AIA in full. It is not an all or nothing claim and the allowance can be claimed in respect of some but not all of the expenditure. Also, there is no requirement to claim it – it may be preferable to claim writing down allowances instead or not to make a claim for a particular year. Whether and to what extent a claim is beneficial will depend on the circumstances and there is no substitute for crunching the numbers.

Example

Stuart prepares accounts to 31 March each year. In the year to December 2016, he spends £220,000 on new machinery. He also needs to buy four new vans, which will cost him £100,000. He was planning to buy the vans in March 2017, but on the advice of his accountant, he delays the purchase until April 2017.

For the year to 31 March 2017, Stuart claims the annual allowance of £200,000 and writing down allowance of £3,600 on the remaining £20,000 of expenditure on the machinery.

In the year to 31 March 2018, he claims the AIA on the vans (plus the writing down allowance on the pool value).

By delaying the expenditure on the vans until April 2017, he is able to obtain immediate relief in full for the expenditure.

Quote of the month...

“The future depends on what you do today.”

- Mahatma Gandhi

Let property campaign

The Let Property Campaign is an initiative by HMRC to encourage those with undeclared rental income to come forward and to bring their tax affairs up to date. In return, HMRC will charge lower penalties than those levied on landlords who wait to be found out.

Who may benefit?

There are many reasons why a landlord may not have paid the correct amount of tax and in many cases the error will be an innocent one, arising because the landlord has not understood the rules. The campaign is available to individual landlords, including those who rent out one or more properties, undertake specialist lettings such as student lets, rent a room in their main home for more than the rent-a-room threshold of £7,500 a year, live abroad and rent out a property in the UK or live in the UK and rent out a property abroad, or who rent out a holiday home.

Taking part

Landlords who owe tax to HMRC and who wish to take part in the Let Property Campaign need to:

- notify – tell HMRC that they wish to take part in the campaign;
- disclose – tell HMRC about the undeclared income and gains;
- make a formal offer; and
- pay the tax that they owe plus associated interest and penalties.

Notification

To notify, you only need to let HMRC know that you will be making a disclosure – at this stage, you do not have to provide details of omitted income and gains. That comes later. Notifications can be made by completing the DDS form (see www.gov.uk/government/publications/hm-revenue-and-customs-disclosure-service). HMRC will then issue a unique disclosure reference number (DRN) and payment reference number (PRN).

Disclosure and payment

Details of undeclared income and gains are provided at the disclosure stage – which can be made once a DRN has been received and must be made (together with payment of tax, interest, and penalties) within 90 days of the date on the notification acknowledgement letter. Payment must be made at the same time as making the disclosure – this is a condition of the campaign (although in rare cases it may be possible to negotiate with HMRC to make the payment in instalments). Guidance on preparing the disclosure is available on the Gov.uk website. HMRC also produce a calculator which can be used to work out the tax, interest, and penalties due. The disclosure contains a declaration that the disclosure is correct and complete. The declaration should only be made if this is the case, as the consequences of making a false declaration may be severe – and could include a criminal prosecution.

Acceptance or rejection

Once a disclosure has been made, HMRC will acknowledge receipt. If everything is in order after checks have been made, it will be accepted. If HMRC are unable to accept the disclosure, they will write to the landlord to let them know. Disclosures are unlikely to be accepted if checks find them to be materially inaccurate or if, prior to notifying, HMRC have informed the landlord of their intention to open an enquiry or compliance check.

Disclosing in itself will not guarantee immunity from prosecution, particularly if serious tax problems are revealed. However, choosing to disclose will work in the landlord's favour.



Relief for early year losses

Many businesses make losses in the early years as they struggle to become established. The tax system provides various ways for relieving losses generally, with additional help available where the loss is incurred in the early years.

Option 1: relief for losses in early years of a trade

Unincorporated businesses with losses in the first four years of trade are able to carry the loss back against total income of the three years preceding the loss. The loss is set against income of the earliest year first – the individual does not get to choose the year against which the loss is relieved.

This can be useful if, say, an individual has been employed and then starts a business making an initial loss, as carrying the loss back may generate a tax refund. However, if income in the preceding years is low, carrying the loss back may not be the best option if this leads to personal allowances being wasted.

The special relief for losses made in the early years of a trade is not available where a business prepares accounts under the cash basis.

Option 2: sideways relief

A trading loss can be relieved against general income of the year of the loss and/or against general income of the year preceding the loss. The taxpayer can choose whether to relieve the loss against the general income of the current or the preceding year, and which is to take priority where a claim is to be made for both years. However, it is an all or nothing claim and it is not possible to tailor the claim to use only part of the loss so as to preserve personal allowances, for example.

Where the individual does not have sufficient income to offset the loss in full, the relief may extend to capital gains. Where a loss is made in the early years of the trade, relief can be claimed under these provisions rather than under the special provisions outlined above for applying to losses in the early years. As with early years relief, sideways relief is not available where the accounts are prepared under the cash basis.

Option 3: carry forward

Carrying the loss forward for relief against future profits from the same trade is essentially the default option and can be used if it is neither possible nor desirable to carry the loss back (under early year rules) or sideways.

Best option

In ascertaining the best use for a loss, the aim is generally to get relief at the best possible rate as early as possible. However, what is the best strategy will depend on an individual's circumstances and the extent that other income is available to mop up a loss. For example, it may not be desirable to carry a loss back or sideways if that results in personal allowances being wasted – in which case carrying the loss forward will be preferable. However, going back or sideways when this triggers a tax refund will generally be advantageous.

It is also necessary to be aware of the cap of reliefs, set at the higher of £50,000 and 25% of adjusted net income.

Mileage payments

Employees and the self-employed alike often need to undertake business journeys and mileage payments are often made to cover the cost of fuel and, where the car used is the individual's own rather than a company car, the associated running costs and an element of depreciation. However, all mileage allowance payments are not the same.

It should be noted here that business travel does not include home to work travel (except in very limited circumstances).

Approved mileage allowance payments

Approved mileage allowance payments (AMAP) are relevant where an employee uses his or her own car for business travel. The system allows the employer to pay an employee a tax-free mileage rate, which does not need to be notified to HMRC on the employee's P11D or payroll. Approved mileage allowance payments are set for cars and vans, motorbikes, and bicycles as follows:

Type of vehicle	First 10,000 business miles	Additional business miles
Cars and vans	45p per mile	25p per mile
Motorcycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

For cars and vans, a higher rate applies to the first 10,000 business miles in the tax year.

Example

Tony undertakes 14,000 business miles for his employer in a tax year, using his own car for business.

The approved mileage payment is £5,000 ((10,000 @ 40p) + (4,000 @ 25p)).

If the employer pays a mileage rate in excess of the approved rate, the excess is taxable and must be notified to HMRC on the employee's P11D. If the amount paid by the employer is less than the approved rate, the employee can claim tax relief for the shortfall.

Mileage Payments - Continued

Advisory fuel rates

HMRC also publish advisory fuel rates. These can be used by employers to reimburse fuel costs where the employee has a company car. The advisory fuel rates are lower than the approved mileage rates to reflect the fact that it is the employer, rather than the employee, who meets the running costs for the vehicle and suffers the associated depreciation.

The advisory fuel rates applying from 1 June 2017 are as follows:

Engine size	Petrol (rate per mile)	LPG (rate per mile)
1400cc or less	11p	
1401cc to 2000cc	14p	9p
Over 2000cc	21p	14p

Engine size	Diesel (rate per mile)
1600cc or less	9p
1601cc to 2000cc	11p
Over 2000cc	13p

As with approved mileage rates, payments in excess of the advisory rates are taxable.

Simplified expenses

The self-employed can also use mileage payments to work out business costs for vehicles if they opt to use the simplified expenses system. Under simplified expenses, the sole trader or partner records the number of business miles undertaken in the year and calculates the amount to deduct when working out business profits by applying a mileage rate. The mileage rates used under the simplified expenses system for cars, vans, and motorcycles are the same as the approved mileage rates set out above. So, a sole trader driving 14,000 business miles a year would be entitled to a flat rate deduction of £5,000.

Simplified expenses cover the costs of fuel, buying and running the vehicle. However, they cannot be used if capital allowances have been claimed for the vehicle.



PAYE Settlement Agreements

A PAYE settlement agreement (PSA) can be a useful tool. It enables an employer to agree with HMRC to meet the tax and associated National Insurance on the employee's behalf on certain pre-agreed benefits and expenses.

What can be included?

A PSA is not suitable for all expenses and benefits and an item can only be included within a PSA if it qualifies on one of the following grounds:

- the item is minor, for example, a small gift;
- the item is provided irregularly, for example, taxable relocation expenses and benefits in excess of the tax-free limit; or
- it is impracticable to work out the amount on which the employee should be taxed, for example, if the benefit is shared.

Some items cannot be included, even if they would qualify on grounds of irregularity or impracticality. The list of excluded items includes cash payments and high-value items, such as company cars.

The introduction of the exemption for trivial benefits means that most minor benefits will now be tax-free, removing the need to include them in a PSA.

PAYE Settlement Agreements - Continued

Impact of a PSA

Including an item in a PSA means that the employer does not need to tell HMRC about it on the employee's P11D (or payroll it). The employee essentially receives the item tax and NIC-free – this can generate goodwill, particularly where the impact of the benefit, such as a gift, would be somewhat lessened by an associated tax bill. However, this all comes at a cost to the employer, as tax is paid at the employee's marginal rate on the grossed up value of the benefit. The employer must also pay Class 1B NIC (at 13.8%), both on the taxable value of the benefits included in the PSA and on the tax paid on those benefits. The Class 1B charge is payable in place of any Class 1 or Class 1A liability that would otherwise arise.

Example

ABC Ltd has a Summer Dinner for its ten employees at a cost of £300 per head. All the employees pay tax at 40%.

The tax payable by the company is £2,000 (40% (£300 x 100/60) x 10)).

The Class 1B NIC is £690 (13.8% ((10 x £300) + £2,000)).

The total amount that the employer must, therefore, pay to settle the PSA is £2,690.

Setting one up

Currently, the PSA must be agreed with HMRC before 6 July following the end of the tax year to which it relates (so by 6 July 2017 for 2016/17). This is the P11D deadline. However, the rules are to be simplified from 6 April 2018, removing the need to agree the PSA in advance.

Deadlines

The tax and NIC due under the PSA must be paid by 22 October after the end of the tax year where payment is made electronically, and by

Ransomware Outbreak

NotPetya

Last month we saw Wannacry cripple organisations globally. This month NotPetya is having a similar affect. **What will happen next month and am I prepared?**

Reacting to these situations can be costly and disruptive to businesses. There can be significant loss of a date and business operation unless the right protection is put in place.

You can focus on **being prepared**. By using Check IT's Proactive Monitoring to ensure your computers are always patched and remain up to date. They can also ensure your anti virus is updated and working correctly. Check IT's Email Filter provides clients with **100% anti virus** protection for nay known or unknown viruses! Having this peace of mind allows business owners to focus on their business moving forward, not worrying about these frequently emerging threats.

Having a robust **Backup** solution will ensure businesses can return to a *point in time*. Relying on sync services (like DropBox) will not prevent ransomware from encrypting those files that are synchronised to the cloud.

*Want to see where your network might be vulnerable? Get a **FREE risk assessment** by Click IT and you'll get concrete steps on where to improve your data security.*

Call Russell on 02380 001810 to make sure you're protected today!

Client Focus: Portchester Engineering

This month we catch up with Sam Morrison, Managing Director of Portchester Engineering, who tells us about her career journey from the workshop to the Director's office...

As a specialist manufacturer of complex components, Portchester Engineering was established back in 1959, when the current Managing Director's father-in-law launched the business.

Since then, the business has evolved from being a manual machine workshop, to a fast and flexible, 24/7 'computer numerically controlled' (or CNC) facility. This means that computers control the machinery throughout the manufacturing process, allowing Portchester Engineering to meet the tight deadlines for orders whilst still reaching a standard of excellence in all their products.

Based in Fareham, the business works in several sectors providing components for super-yachts, motor sports and the aerospace sector as well as providing components for the machinery used in food production, the marine industry and for medical equipment.

Over the years, Managing Director, Sam Morrison has seen several changes having started her career with the business back in 1994, when she cut her teeth on the workshop floor. Now she owns the business having bought it from her father-in-law back in 2002.

"Things have certainly changed a lot since then" explains Sam, "Technology has advanced rapidly, and like any business it is important for us to keep abreast with such advances. We therefore continually invest in the latest high-tech CNC machinery, tooling & CAD machining software, all of which enables us to accept our customers machining requirements via the internet."

"I feel that starting my career on the workshop floor has been of great benefit to how I run the business in terms of having the knowledge and understanding how the manufacturing process works. In fact I still go out and work on the workshop floor now if things get very busy!" To cope with the rising demand and increased workload, Portchester Engineering is expanding into a second unit to increase output and reduce customer lead times.

"We currently employ eight members of staff," adds Sam, "But once the new unit is up and running, we plan on expanding our workforce." "We had an accountant back then, but were interested in changing. I remember doing a little research and coming across Compass. That is when we met Kerry, who still works with us, and has been absolutely great over the years. Compass help us with all of our tax needs and are always quick to respond with useful and helpful advice. We consider them a part of our overall team now."

If you would like to find out more about Portchester Engineering's services- call **023 9237 4771** - Or, email **Sam Morrison** - Managing Director on sam@portchesterengineering.co.uk

www.portchesterengineering.co.uk



Tax Diary July/August 2017



- 1 July 2017** - Due date for Corporation Tax for years ended 30 September 2016.
- 6 July 2017** - Last date for agreeing PAYE Settlement Agreements for 2016-17.
- 6 July 2017** - Due date for filing forms P9D, P11D and P11D(b)
- 6 July 2017** - Last date for forms P9D and P11D to be given to employees
- 19 July 2017** - Pay Class 1A National Insurance (if you pay your tax electronically the due date is 22 July 2017)
- 19 July 2017** - PAYE and NIC deductions due for month ended 5 July 2017. (If you pay your tax electronically the due date is 22 July 2017)
- 19 July 2017** - Filing deadline for the CIS300 monthly return for the month ended 5 July 2017.
- 19 July 2017** - Due date for CIS tax deducted for the month ended 5 July 2017.
- 31 July 2017** - Due date for second Self-Assessment payment on account for the tax year ended 5 April 2017
- 1 August 2017** - Due date for Corporation Tax for years ended 31 October 2016.
- 19 August 2017** - PAYE and NIC deductions due for month ended 5 August 2017. (If you pay your tax electronically the due date is 22 August 2017)
- 19 August 2017** - Filing deadline for the CIS300 monthly return for the month ended 5 August 2017.
- 19 August 2017** - Due date for CIS tax deducted for the month ended 5 August 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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