COMPASS ACCOUNTANTS

TAX ANGLES FOR PROACTIVE PLANNING

Newsletter - June 2019

In this month's edition…

- When does the diesel supplement apply?
- Tax relief for charitable donations
- Beware disposals to family members - the 'market value' rule
- Travel expenses and the 24-month rule
- Give from income to save inheritance tax
- Compass Quiz News

When does the diesel supplement apply?

Employees with a company car are taxed – often quite heavily – for the privilege. The charge is on the benefit which the employee derives from being able to use their company car for private journeys.

The amount charged to tax is a percentage of the 'list price' of the car – known as the 'appropriate percentage'. The percentage depends on the level of the car's CO2 emissions. A supplement applies to diesel cars. For 2019/20, as for 2018/19, the supplement is set at 4%. However, the application of the diesel supplement cannot take the percentage of the price charged to tax above the maximum charge of 37%. Consequently, the diesel supplement has no practical effect where emissions are 170g/km or above as the maximum charge already applies.

The nature of the diesel supplement was reformed from 6 April 2018. From that date it applies to cars propelled solely by diesel (not hybrids) which do not meet the Real Driving Emissions 2 (RDE2) standard. The supplement is levied both on diesel cars which are registered on or after 1 January 1998 which do not have a registered Nitrogen Oxide (NOx) emissions value, and also on diesel cars r egistered on or after that date which have a NOx level that exceeds that permitted by the RDE2 standard.

Checking whether the supplement applies
So, how can employers tell whether the diesel supplement applies?

Diesel cars which meet the level of NOx emissions permitted by Euro standard 6d meet the RDE2 standard. Consequently, they are exempt from the entire diesel supplement. For cars that are manufactured after September 2018, employers can use the Vehicle Enquiry Service (see https://vehicleenquiry.service.gov.uk/) to identify whether aparticular car meets the Euro 6d standard – the employer simply needs to enter the registration number of the car into the tool to find information on the vehicle, including its Euro status.

Cars that are shown as meeting Euro status 6AJ, 6AL, 6AM, 6AN, 6AO, 6AP, 6AQ or 6AR meet Euro standard 6d and are therefore exempt from the diesel supplement.

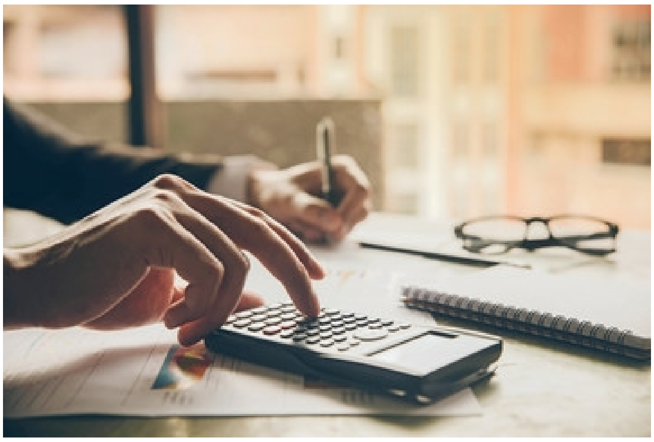
Where the car was registered on or after 1 September 2018, this information is also shown on the vehicle registration document, V5C.

From 6 April 2019 onwards, employers should use fuel type F (rather than A as previously) when reporting the allocation of a diesel car meeting the Euro 6d standard to HMRC on Form P46(Car) or when payrolling the benefit.

Cars that do not meet the Euro 6d standard are subject to the diesel supplement. HMRC advise that very few, if any, diesel cars were exempt from the diesel supplement in 2018/19.

Example 1
Alan is allocated a company car registered in 2015. The car has CO2 emissions of 120g/km. It does not meet the Euro 6d standard. The diesel supplement applies and the appropriate percentage is increased by 4% from 28% (the percentage applying for 2019/20 to petrol cars with CO2 emissions of 120g/km) to 32%.

Example 2
Louise is allocated a new diesel company car on 6 April 2019. The V5C shows that the car has CO2 emissions of 120g/km and that it meets Euro Status 6d. The diesel supplement does not apply and the tax charge for 2019/20 is based on the appropriate percentage of 28% for cars with CO2 emissions of 120g/km.



Tax relief for charitable donations

Individuals who donate to charity can do so tax-free. There are various ways of making tax-relieved gifts to charity – the way in which the relief works depends on whether the donation is made via Gift Aid, as a deduction from wages or a pension via the Payroll Giving Scheme, in a will or whether it is a gift of land or property.

Gift Aid
A donation through Gift Aid is treated as having been made net of the basic rate of tax, allowing the charity to reclaim the tax element from HMRC. Thus, the amount given equates to 80% of the donation and the charity benefits from the remaining 20%. This results in every £1 given through Gift Aid being worth £1.25 to the charity.

To enable the charity to reclaim the tax, the donor must complete a Gift Aid declaration, in which the donor must confirm that they are a UK taxpayer.

This is important – the tax that is paid to the charity comes from the tax paid by the individual, and if the individual has not paid sufficient tax to cover tax claimed by the charity on the donation, HMRC may ask the donor to pay the equivalent amount in tax.

Taxpayers who make regular donations and who have a Gift Aid declaration in place should check that they have paid enough tax. This may be important for pensioners who, following an increase in the personal allowance, find that they are no longer taxpayers.

Donors who pay tax at the higher or additional rate of tax are able to claim relief of the difference between the higher or additional rate and the basic rate through their self-assessment returns.

It is important that this is not overlooked and that records of donations are kept so the additional relief can be claimed.

Payroll giving
Payroll giving schemes enable employees to make donations to charity as a deduction from their pay and to receive tax relief at source for those donations. Employers wishing to operate a scheme must appoint a payroll giving agency. A list of approved payroll giving agencies is available on the Gov.uk website.

The employer deducts the donation from the employee's gross pay for PAYE purposes and pays it over to the payroll giving agency. The payroll giving agency passes the donation on to the employee's chosen charity.

As the deduction is made from gross pay, no tax is paid on it. However, the employee will still pay National Insurance on the amount donated (as will the employer).

Where land, property or shares are sold to a charity for more than the cost, but less than their market value, no capital gains tax is payable.

Gifts in a will
Where a donation to charity is made in a will, the donation will either reduce the value of the estate before inheritance tax is calculated, or, if 10% or more of the estate is left to charity, reduce the rate of inheritance tax by 10% from 40% to 36%.

Giving land, property or shares to charity
Income tax or capital gains tax relief may be available for donations of land, property or shares to charity. Income tax relief is given by deducting the value of the donation from total taxable income for the tax year in which the gift was made to the charity. Relief is claimed in the self-assessment return.

Where land, property or shares are sold to a charity for more than the cost, but less than their market value, no capital gains tax is payable.

Beware disposals to family members – the 'market value' rule

At first sight, the calculation of a capital gain or loss on the disposal of an asset is relatively straightforward – simply the difference between the amount received for the sale of that asset and the cost of acquiring (and, where relevant) enhancing it, allowing for the incidental costs of acquisition and disposal. However, as with all rules there are exceptions, and particular care needs to be taken when disposing of an asset to other family members.

Spouses and civil partners

The actual consideration, if any, is ignored for transfers of assets between spouses and civil partners. Instead, the consideration is deemed to be that which gives rise to neither a gain nor a loss. The effect of this rule, which is very useful for tax planning purposes, is that the transferee simply assumes the transferors base cost – and the transferor has no capital gain to worry about.

Other connected persons

While the no gain/no loss rules for transfers between spouses and civil partners is useful from a tax perspective, the same cannot be said to be true for market value rule that applies to transfers between connected persons.

Where two persons are connected, the actual consideration, if any, is ignored and instead the market value of the asset at the time of the transfer is used to work out any capital gain or loss.

The market value of an asset is the value that asset might reasonably be expected to fetch on sale in the open market.

Who are connected persons?

A person is connected with an individual if that person is:

- the person's spouse or civil partner;
- a relative of the individual;
- the spouse or civil partner of a relative of the individual;
- the relative of the individual's spouse or civil partner;
- the spouse or civil partner of a relative of the individual's spouse or civil partner.

For these purposes, a relative is a brother, sister or ancestor or lineal descendant. Fortunately, the term 'relative' in this context does not embrace all family relationships and excludes, for example, nephews, nieces, aunts, uncles and cousins (and thus the actual consideration is used in calculating any capital gain).

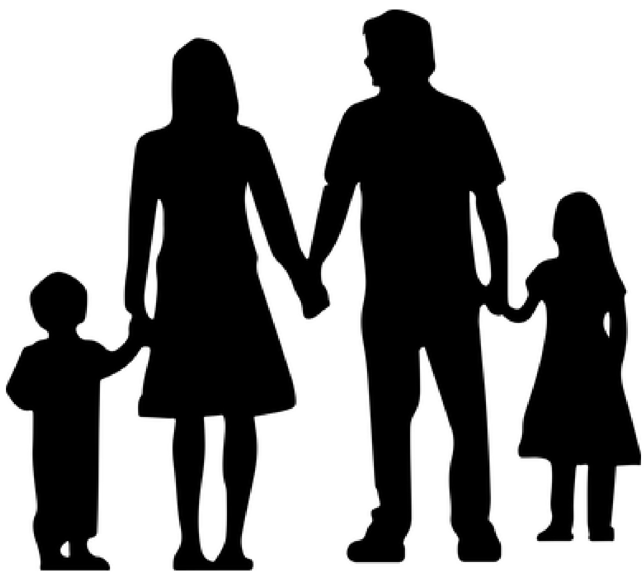
As noted above, the deemed market value rule does not apply to transfers between spouses and civil partners (to which the no gain/no loss rules applies), but it catches those to children, grandchildren, parents, grandparents, siblings – and also to their spouses and civil partners.

Example 1

Barbara has had a flat for many years which she has let out, while living in the family home. Her granddaughter Sophie has recently graduated and started work and is struggling to get on the property ladder. To help Sophie, Barbara sells the flat to her for £150,000. At the time of the sale it is worth £200,000.

As Barbara and Sophie are connected persons, the market value of £200,000 is used to work out Barbara's capital gain rather than the actual consideration of £150,000. If she is unaware of this, the gain will be higher than expected (by £14,000 if Barbara basic rate band has been utilised), and Barbara may find that she is short of funds to pay the tax.

This problem may be exacerbated where the asset is gifted – the gain will be calculated by reference to market value, but there will be no actual consideration from which to pay the tax.



Travel expenses and the 24-month rule

As a general rule, employees are denied a tax deduction for the cost of travel between home and work. Likewise, subject to a few limited exceptions, if the employer meets the cost of home to work travel, the employee is taxed on it.

One of the main exceptions to this rule is where an employee attends a 'temporary workplace'. This is a workplace that the employee goes to in order to perform a task of limited duration or one that he attends for a temporary purposes, even if the attendance is on a regular basis.

Example 1
Polly is based in the Milton Keynes office. She is seconded to the Bedford office for 12 months to cover an employee's maternity leave. At the end of the secondment, she will return to the Bedford office. The Bedford office is a temporary workplace. Consequently, Polly is allowed a deduction for travel from her home to the Bedford office.

Example 2
James is a health and safety officer. He is based in the Liverpool head office. Each week he visits factories in Manchester and Bury to carry out safety checks. The factories are temporary workplaces as each visit is self-contained. Consequently, James is allowed a deduction for travel expenses incurred in visiting the factories, even if he travels there from home.

24-month rule
A workplace does not count as a temporary workplace if the employee attends it in a period of continuous work which lasts, or is expected to last more than 24 months. A 'period of continuous work' is one where the duties are performed at the location in question to a 'significant extent'. HMRC regard duties being performed to a 'significant extent' at a particular location if an employee spends 40% or more of their working time there.

The upshot of this rule is that where the employee has spent, or is likely to spend, 40% of their working time at the location in question over a period of more than 24 months, that location will be a permanent location rather than a temporary location. Consequently, home to work travel is 'ordinary commuting' (travel between home and a permanent workplace), which is not deductible.

It is important to appreciate that both parts of the test must be met for the workplace to be a permanent workplace – more than 40% of time spent there and over a period of more than 24 months.

Example 3
George is employed full-time at a care home in Southampton, a role which he has held for four years. He is sent to work full time at a new care home in Bournemouth for three years, after which time he will return to the Southampton care home.

Although the move to the Bournemouth posting is not permanent, the posting lasts more than 24 months and, as such, the Bournemouth home does not qualify as a temporary workplace.

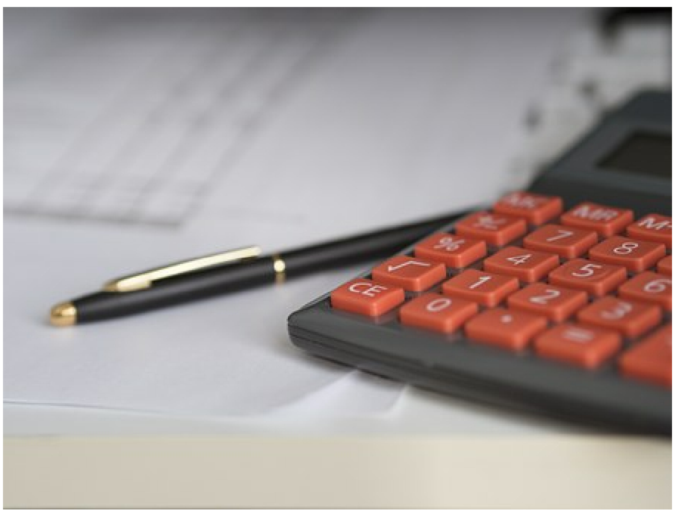
Consequently, George is not allowed a deduction for the cost of travelling from home to the Bournemouth care home.

Change of circumstances
Circumstances can and do change. If at the outset a posting is expected to last 24 months, the workplace will be treated as a temporary workplace. If later the posting is extended so that it will last more than 24 months, the workplace ceases to be a temporary workplace from the date that it becomes apparent the posting will exceed 24 months.

Fixed term appointments rule
An employee undertaking a fixed-term appointment is not entitled to relief for home to work travel, even where it lasts less than 24 months, if the employee attends the workplace for all, or almost all of the period which they are likely to hold the appointment.

Example
Imogen takes on a 12-month contract at an office in Marlow. though the appointment is less than 24 months, the Marlow office is not a temporary workplace as Imogen works there for duration of the contract.

Tax exemption
If the employer pays or reimburses travel expenses which would be deductible if met by the employee, the payment or reimbursement is exempt from tax.



Give from income to save inheritance tax

Within a family scenario, there are many situations in which one family member may make a gift to other family members. However, the way in which gifts are funded and made can make a significant difference to the way in which they are treated for inheritance tax purposes.

Not all gifts are equal

There is no inheritance tax to pay on gifts between spouses and civil partners. A person can make as many lifetime gifts to their spouse or civil partner as they wish (as long as they live in the UK permanently). There is no cap on the value of the gifts either.

Other gifts may escape inheritance tax if they are covered by an exemption. This may be the annual exemption (set at £3,000 per tax year), or a specific exemption such as that for gifts on the occasion of a marriage or civil partnership or the exemption for 'gifts out of income'.

Gifts that are not covered by an exemption will counts towards the estate for inheritance tax purposes and, if the donor fails to survive for at least seven years from the date on which the gift was made, may suffer an inheritance tax bill if the nil rate band (currently £325,000) has been used up.

Gifts from income

The exemption for 'normal expenditure out of income' is a useful exemption. The exemption applies where the gift:

- formed part of the taxpayer's normal expenditure;
- was made out of income; and
- left the transferor with enough income for them to maintain their normal standard of living.

All of the conditions must be met for the exemption to apply. Where it does, there is no requirement for the donor to survive seven years to take the gift out the IHT net.

What counts as 'normal' expenditure?

For the purposes of the exemption, HMRC interpret 'normal' as being normal for the transferor, rather than normal for the 'average person'.

To meet this condition it is sensible to establish a regular pattern of giving –for example, by setting up a standing order to give a regular monthly sum to the recipient.

It is also possible that a single gift may qualify for the exemption if the intention is for it to be the first of a series of gifts, and this can be demonstrated. Likewise, regular gifts may not qualify if they are not made from income.
In deciding whether a gift constitutes normal expenditure from income, HMRC will consider a number of factors, including:

- the frequency of the gift;
- the amount;
- the identity of the recipient; and
- the reason for the gift.

The amount of the gift is an important factor – to meet the test the gifts must be similar in amount, although they do not have to be identical. Where the gift is made by reference to a source of income that is variable, such as dividends from shares, the amount of the gift may vary without jeopardising the exemption.

Gifts will normally be in the form of money to the recipient, or a payment on the recipient's behalf, such as school fees or a mortgage.

The reason for making a gift may indicate whether it is made habitually – for example, a grandparent may makes a gift to a grandchild at the start of each university term to help with living costs. It is also important that having made the gift, the donor has sufficient income left to maintain his or her lifestyle.

When making gifts from income, check that they may meet the conditions to ensure that the exemption is available.

Compass' Quiz Night Event to Raise Funds for Breast Cancer Haven

We are delighted to announce that the chosen charity to benefit from the Compass Accountants Charity Quiz in 2019, will be Breast Cancer Haven.

Breast Cancer Haven is a UK charity, that provides cost free support to anyone affected by breast cancer. Compass will raise funds for the Wessex branch located in Titchfield.

The charity's counsellors, therapists and health professionals offer support and help to people experiencing the personal challenges brought on by living with breast cancer.

Breast Cancer Haven provides classes, talks, workshops support days and much more to help support those living with breast cancer.

This year will mark the fourth consecutive Compass charity quiz night that annually aims to raise funds for a chosen charity.

Last year the quiz saw 29 local businesses participate helping to raise a total of £3,020 pounds for Brain Tumour Research.

Businesses that attended in 2018 included – National Museum of the Royal Navy, ITEC Connect Limited, Portchester Engineering Limited, Glanvilles LLP, The Children's Legal Practice, Matrix IT Solutions Limited, Laura Bowyer – Employ Matters, Stellar Despatch, Portland, Barclays, Verisona Law, HantsWight Searches Limited, Beacon LLP, Liz Dayment, Steve Davis Graphic Design Limited, JPC Property Services Limited, Fareham and Crofton Cricket Club, Santander and Quality Covers All Limited.

Director of Compass Accountants, Stuart Lawrance said, "The funds we raise through the Compass charity quiz grow each year, as do the number of people participating.

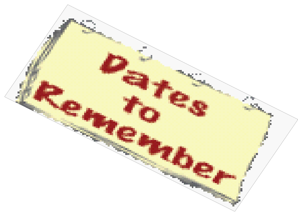
We hope once again, that numbers of clients, associates, friends and local businesses come together to get involved in what will be a wonderful evening, of fun, laughter and networking, whilst raising money for a very important cause."

The quiz will take place at Portsmouth FC on Thursday 3rd October, at 18.00. If you would like to register your interest, or book a team for the event, you can contact Natalie Farley on natalief@compassaccountants.co.uk

breast cancer haven

your help through the toughest times

Tax Diary
June/July 2019



1 June 2019	Due date for Corporation Tax for years ended 31 August 2018.
19 June 2019	PAYE and NIC deductions due for month ended 5 June 2019. (If you pay your tax electronically the due date is 22 June 2019).
19 June 2019	Filing deadline for the CIS300 monthly return for the month ended 5 June 2019.
19 June 2019	Due date for CIS tax deducted for the month ended 5 June 2019.
1 July 2019	Due date for Corporation Tax for years ended 30 September 2018.
5 July 2019	Last date for agreeing PAYE Settlement Agreements for 2018-19.
6 July 2019	Due date for filing forms P9D, P11D and P11D (b).
6 July 2019	Last date for forms P9D and P11D to be given to employees.
19 July 2019	Pay Class 1A National Insurance (if you pay your tax electronically the due date is 22 July 2019).
19 July 2019	PAYE and NIC deductions due for month ended 5 July 2019. (If you pay your tax electronically the due date is 22 July 2019).
19 July 2019	Filing deadline for the CIS300 monthly return for the month ended 5 July 2019.
19 July 2019	Due date for CIS tax deducted for the month ended 5 July 2019.
31 July 2019	Due date for second Self-Assessment payment on account for the tax year ended 5 April 2019.

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

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