



Compass Accountants

Newsletter - June/July 16

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

TaxAngles - For proactive tax planning

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Pensions Annual Allowance – abatement for high earners

Individuals are able to make tax-relieved contributions to registered pension schemes to the higher of 100% of earnings and the standard amount (£3,600), as long as they have sufficient annual allowance available. For 2016/17 the annual allowance is set at £40,000; however, this is reduced for high income individuals whose income exceeds certain thresholds.

Any unused amounts of the annual allowance can be carried forward for three years. Employer contributions to registered pension schemes also eat into the allowance.

When does the reduction bite?

There are two triggers for a reduction in the annual allowance, both of which must apply for the allowance to be reduced. The first is that the individual's adjusted income for the year is more than £150,000. The second is that the individual's 'threshold income' for the year is more than £150,000 less the standard annual allowance for the year. Thus the threshold income limit is £110,000 for 2016/17 (£150,000 less the standard annual allowance of £40,000).

The two measures of 'income' are potentially confusing. Essentially, 'adjusted income' is all income including pension contributions (both individual and employer contributions), whereas threshold income excludes pension contributions.

Reducing the allowance

Where the individual has both adjusted income of more than £150,000 and threshold income of more than £110,000 for 2016/17, the annual allowance of £40,000 is reduced by £1 for every £2 by which adjusted income exceeds £150,000.

The maximum reduction is £30,000, meaning that the minimum allowance for 2016/17 is £10,000. This will apply to anyone with adjusted income of more than £210,000 (and threshold income of more than £110,000).

Example

Malcom has adjusted income of £180,000 in 2016/17 and threshold income of £140,000. The total of his individual and employer pension contributions for the year is £40,000. As his adjusted income is more than £150,000 and his threshold income is more than £110,000, his annual allowance is reduced.

His allowance is reduced by £15,000 (50% (£180,000 - £150,000)) to £25,000 (£40,000 - £15,000).

However, his pension contributions for the year are £40,000. This is more than his annual allowance for the year of £25,000. Thus, unless he has sufficient unused annual allowance brought forward from earlier years, he will suffer an annual allowance charge on contributions in excess of his available annual allowance.

Tip High earners should check the impact on their annual allowance before making pension contributions in 2016/17 as they may inadvertently trigger an annual allowance charge.

Quote of the month...



"Management is doing the right thing. Leadership is doing the right things". - Peter Drucker - Management Guru

Reclaiming Tax Once Director's Loan Repaid

In family companies, many directors and shareholders maintain loan accounts with the company. As long as any loans are cleared within nine months and a day of the year end (i.e. by the date by which corporation tax for the period is due), the only tax charge that potentially arises is a benefits in kind charge if the total balance owed by the director tops £10,000 at any point in the tax year.

However, if the director or another participator still owe the company money nine months and one day after the year end, then a corporation tax charge ('section 455 tax') is levied on the outstanding loan balance. The rate is 25% where the loan was taken out before 6 April 2016 and 32.5% for loans taken out on or after this date.

Unlike most other taxes, section 455 is essentially a temporary tax. It is repayable once the outstanding loan balance is repaid. However, the repayment is not immediate – as with payment of the tax, the crucial date is the normal due date for corporation tax. Consequently, the tax becomes repayable nine months and one day after the end of the accounting period in which the loan is repaid.

Example

Sol is the director of his family company. The company prepares accounts to 31 March each year. In January 2012 Sol borrows £20,000 from the company. The loan was still outstanding on 1 January 2013 (the due date for corporation tax for the year to 31 March 2013) and the company paid section 455 tax of £5,000 (25% of £20,000). In July 2014, Sol repaid the loan. The repayment falls in the year to 31 March 2015.

Property Letting – new relief for replacement of domestic items

Until the end of the 2015/16 tax year, landlords letting furnished properties were able to claim an automatic deduction of 10% of net rents to cover the cost of replacing fixtures and fittings. The relief was only available in respect of furnished lettings and it was available regardless of whether any money was actually spent on replacing items. This relief came to an end on 5 April 2016 and from the start of the 2016/17 tax year, there is a new kid on the block. The new relief – replacement of domestic items relief – is wider than its predecessor in that its application is not restricted to furnished lettings.

The relief is available in calculating the profits of a property business which includes a 'dwelling house.' This does not have to be a house – flats, apartments etc. also qualify. It does not matter whether the dwelling house is let furnished or unfurnished. However, the new relief does not apply to furnished holiday lettings in respect of which capital allowances are available. In calculating the profits of the property rental business, a deduction is given for the capital expenditure on replacement furniture, furnishings, appliances and kitchenware.

The availability of the relief is conditional on certain conditions being met:

- the expenditure must relate to the replacement of a domestic item for use solely by the lessee in the let property;
- the old item must no longer be available;
- the expenditure is capital in nature and incurred wholly and exclusively for the purposes of the property business;
- capital allowances are not available in respect of the expenditure; and
- rent-a-room relief has not been claimed.

The amount of the deduction is the cost of the replacement item (on a like for like basis) plus any incidental costs of disposing of the old item, less any amounts received in respect of the sale of the old item. The replacement item must be substantially the same as the old item. Where the replacement is superior to the old item, the deduction is limited to the cost of an equivalent replacement.

Example

Harry has an investment property, which he lets out furnished. In 2016/17, he replaces the sofa at a cost of £500 and the fridge at a cost of £300. It costs him £15 to dispose of the old fridge and he sells the old sofa on e-bay for £100. In working out the profits of his property rental business for 2016/17, he is able to claim a deduction of £715 (the cost of the replacement items (£500 + £300), plus the cost of disposing of the fridge (£15), less the proceeds from the sale of the old sofa (£100)).

The section 455 tax of £5,000 becomes repayable nine months and one day after the year end in which the repayment was made, i.e. on 1 January 2016.

How to get the tax back

The section 455 tax is not repaid automatically and a repayment must be claimed within four years from the end of the accounting period in which the repayment is made or the loan is written off.

A claim that is made within two years of the end of the accounting period in which the loan is paid should be made on form CT600A when the company tax return is filed. The company tax return can also be amended to allow for a claim within 12 months of the filing date.

Where a claim cannot be made via the company tax return (for example because the two-year window has expired) it can be made on form LP2. The form is available on the GOV.UK website at www.gov.uk/government/publications/corporation-tax-reclaim-tax-paid-by-close-companies-on-loans-to-participants-l2p. It can be completed on screen and either saved as a PDF and sent with the latest company tax return, or printed out and sent by post to HMRC.

Salary Sacrifice – still worthwhile?

Under a salary sacrifice arrangement the employee gives up part of his or her cash pay in return for a non-cash benefit. This can be very beneficial for both the employer and the employee.

However, the Government are unhappy about salary sacrifice arrangements. While they have yet to ban them, they are considering what to do with them and some of the newer exemptions do not apply where the benefit in question is provided by means of a salary sacrifice arrangement.

Making the most of an exemption

Salary sacrifice arrangements are frequently used to take advantage of the tax exemptions, such as that for childcare vouchers. The employee gives up taxable and NIC-able salary in return for childcare vouchers, which are exempt from both tax and National Insurance. The employer also saves employer National Insurance contributions.

Example

Holly is a basic rate taxpayer. She swaps salary of £55 per week for childcare vouchers. The childcare vouchers are exempt from tax and National Insurance. This saves her tax of £11 per week (£55 @ 20%) and National Insurance of £6.60 per week (£55 @ 12%) – a total savings of £17.60 a week, or £915.20 per year. Her employer also saves employer's National Insurance of £7.59 per week – an annual saving of £394.68.

Employee NIC savings

Salary sacrifice arrangements are also effective even if the benefit is not exempt. Most benefits in kind are liable to employer-only Class 1A National Insurance contributions rather than Class 1 contributions payable by both the employee and the employer.

Swapping cash salary for a benefit in kind swaps the liability from Class 1 to Class 1A, saving employee contributions.

Example

Naomi is a basic rate taxpayer. She gives up £300 of her salary in return for private medical insurance, which costs her employer £300 a year. Although she is taxed on the benefit of the private medical insurance, she saves National Insurance of £36, which she would have paid on the £300 of salary. Although the employer does not save any money, there is a cash flow benefit as Class 1A National Insurance is not payable until after the year end.

Keeping it effective

To benefit from the advantages offered by salary sacrifice arrangements, the salary sacrifice must be effective. This means that the reduction in salary must be contractual. It should be noted that a salary sacrifice arrangement cannot reduce the employee's salary below the National Living Wage (or National Minimum Wage for employees under the age of 25). It may also impact on the employee's entitlement to contributory benefits.

Limited opportunity

Salary sacrifice arrangements are under the HMRC radar. Some tax exemptions, such as those for trivial benefits, qualifying paid and reimbursed expenses and workplace meals, do not apply where the benefit is provided under a salary sacrifice arrangement. Further restrictions are expected. The message is to take advantage of salary sacrifice arrangements while you can.

A Trivial Matter

A new statutory exemption applies for trivial benefits from 6 April 2016. Trivial benefits are tax-free to employees and do not need to be notified to HMRC on form P11D.

What is a 'trivial' benefit?

To count as 'trivial' the benefit must satisfy the following conditions:

- the cost of providing it is not more than £50;
- the benefit is not cash or a cash voucher;
- the employee is not contractually entitled to the benefit; and
- the benefit is not provided in recognition of particular services performed by the employee as part of the duties of their employment, or in anticipation of employees.

If the cost of a benefit is more than £50, the benefit does not apply and the full amount is taxable, not just the excess over £50.

Determining the 'cost'

A £50 ceiling applies in determining whether a benefit is trivial or not. It is the cost of providing the benefit to each employee that is critical, rather than the total cost to the employer. It does not matter whether the employer provides a benefit to only one employee or to, say, 500 employees.

For the purposes of the exemption, the cost is the VAT inclusive cost, irrespective of whether the VAT is recovered by the employee.

A Trivial Matter (continued)

Where a benefit is provided to a group of employees and it is impracticable to work out the cost to each individual, the benefit will be regarded as trivial if the average cost does not exceed £50 (provided that the other conditions are also met).

It will normally be apparent whether it is possible to work out the actual cost or whether it is necessary to use the average cost. HMRC advise taking a common-sense approach, although they provide examples of where an average cost valuation would be acceptable in their guidance. This would include, for example, a meal out for five employees where the total bill came to £240. In this situation, HMRC would accept an average cost of £48 per person (making the benefit trivial), rather than expecting the employer to analyse the bill to work out the actual cost for each employee. By contrast, if at Christmas, employees are provided with a bottle of wine costing £15 per bottle and directors with a bottle of champagne costing £70, the actual costs should be used. The wine provided to the employees could be ignored as trivial, while the directors would be taxed on the full £70 cost of the champagne.

Close companies – additional cap

The total amount of tax-free benefits that can be provided to directors and office holders of close companies and to their families is capped at £300 a year. This limit is known as the annual exempt amount. Any benefits that take the total cost over the limit and any subsequent benefits are taxed in full.

Example

Paul is a director of a close company. He receives six benefits costing £45 each in the first ten months of 2016/17. These benefits, which have a total cost of £270, are tax free. He then receives a further benefit costing £40. Although the cost of the benefit is less than £50, it takes him over the £300 annual cap and the benefit is taxable in full.

Had Paul not been an officer of a close company, the final benefit would be within the exemption.

PAYE, Student loan and CIS deductions are due for the month to 5th June 2016

This deadline is relevant to employers who have made PAYE deductions from their employees' salaries and to contractors who have paid subcontractors under the CIS.

Employers are required to make payment to HMRC of the income tax, national insurance and student loan deductions. Contractors are required to make payment to HMRC of the tax deductions made from subcontractors under the CIS.

Where the payment is made electronically the deadline for receipt of cleared payment is 22nd June 2016. In year interest will be charged if payment is made late. Penalties also apply.

P11D deadline approaching

The forms P11D, and where appropriate P9D, which report details of expenses and benefits provided to employees and directors for the year ended 5 April 2016, are due for submission to HMRC by 6 July 2016. The process of gathering the necessary information can take some time, so it is important that this process is not left to the last minute.

Employees pay tax on benefits provided as shown on the P11D, either via a PAYE coding notice adjustment or through the self assessment system. In addition, the employer has to pay Class 1A National Insurance Contributions at 13.8% on the provision of most benefits. The calculation of this liability is detailed on the P11D(b) form. The deadline for payment of the Class 1A NIC is 19th July (22nd for cleared electronic payment).

HMRC produce an expenses and benefits toolkit. The toolkit consists of a checklist which may be used by advisers or employers to check they are completing the forms correctly.

If you would like any help with the completion of the forms or the calculation of the associated Class 1A NIC please get in touch.

Client Focus - Apolo Motor Services- Richard West

This month we talk to Richard West, the owner of Apolo Motors...

As an established, independent garage based in Fareham, Apolo Motor Services provides servicing, repairs and MOT's for all models of vehicle. With over 75 years of collective experience, Apolo's technicians deliver a high standard of service and workmanship, which has earned it a highly trusted reputation for decades.

The owner of Apolo Motors, Richard West, has himself been a mechanic for 44 years, but first joined the firm (then called Howcroft and Webb), back in 1971.

He explains, "I first came here as a fifteen-year-old apprentice. After five years, I served my apprenticeship, and then moved to broaden my experience in the motor trade. In 1991 I received a phone call from the owner and was offered a job back here which I took." Eighteen years after returning, Richard was presented with the opportunity of becoming a partner.

Then, in 2014, following the retirement of his partner, Richard took the business on himself and became the owner "It's very unusual to have served an apprenticeship with a firm then, 40 years later you own that company." he says.

"Over the years we have upheld a very good reputation for what we do. I have always found that you can't just tell people how good you are they have to find out. We are also more than happy to speak to anyone and give advice for free." Richard has demonstrated this philosophy over the years, having never advertised. His customer base has always come from Apolo's trusted reputation.

He explains, "Once clients come to us they tend to come back and then they tell other people about us and that's how our service has always worked."

The level of skill and training staff at Apolo undertake has also been an important aspect of its service. "Our workshop manager has been here since leaving school over 25 years", explains Richard. "Another member of staff also came from school and won apprentice of the year at his college. We always try to teach our staff the old way and teach them right and we are proud to have over 75 years' experience between us." he adds.

"I had known of Compass for quite some time -in fact I actually knew Jeff many years ago I used to work on his car and even his father's! It wasn't until 20 years later that I had a problem with my accountant and I thought of Jeff."

"Often, when you are in business you can be reluctant to change your accountant. When we finally made the jump, I found it a bit nerve racking – as we had been with our previous company for 25 years! But Compass were great since the very first day, they have been brilliant."

"I have previously been in a situation where I have been billed by an accountant for a short phone call with Compass you don't feel like you are going to be taken advantage of and that trust is very important."

"Compass have done more for me in 2 years, than my previous accountant did in 20! As well as provide an amazing service they have helped me with things like networking events and golf trips, I have always felt very looked after."

"I'm a great believer that if someone knows their job and does their job well, then you should trust them to get on and do it. With Compass, I trust them entirely and follow their advice and guidance with confidence."

If you would like to learn more about Apolo's services, go to: www.apolomotorservices.co.uk

Or, call on Tel: **01329 289431** or email: carcare@apolomotorservices.co.uk

Tax Diary June/July 2016



- 1 June 2016** Due date for Corporation Tax for years ended 31 August 2015.
- 19 June 2016** PAYE and NIC deductions due for month ended 5 June 2016. (If you pay your tax electronically the due date is 22 June 2016)
- 19 June 2016** Filing deadline for the CIS300 monthly return for the month ended 5 June 2016.
- 19 June 2016** Due date for CIS tax deducted for the month ended 5 June 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

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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