



# Compass Accountants

Newsletter - June/July 17

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

## TaxAngles - For proactive tax planning

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### A quick overview of capital gains tax

Capital gains tax is a tax on the profit that is made on the disposal of an asset. Normally, this will apply when an asset is sold, but a taxable gain may also arise when an asset is given away as a gift or exchanged for something else. A tax charge may also arise if compensation, such as an insurance payout, is received when the asset is destroyed. Exemptions and reliefs may be available.

Capital gains tax is payable on net gains to the extent that they exceed the annual exempt amount.

#### Chargeable assets

Capital gains tax is only payable if the asset in question is a chargeable asset. Chargeable assets include personal possessions which are worth more than £6,000, any property which is not your main home, shares (other than those held in a tax-free scheme or investment), and business assets.

#### Allowable costs

In working out the chargeable gain, you deduct any allowable costs. These include not only the cost of buying the asset in the first place but also any incidental costs of buying and selling, such as advertising, commission, etc., and anything spent on the asset to enhance its value.

#### Losses

Losses are worked out in the same way as gains. Losses and gains arising in the same tax year are set against each other to arrive at the net gain for the year. Where there is a net loss, this can be carried forward and set against future gains.

### Annual exempt amount

All individuals are entitled to an annual exempt amount. For 2017/18, this is set at £11,300 for 2017/18. For 2016/17, the figure was £11,100.

The annual exempt amount is set against net gains for the year (gains less losses). Any brought forward losses can be used to shelter any gain remaining once the annual exemption has been applied.

If the annual exempt amount is not used in the tax year in question, it is lost – unused amounts cannot be carried forward.

### Rates

For 2017/18, capital gains tax is payable at the rate of 10% to the extent that total taxable income and gains do not exceed the basic rate band of £33,500, and at 18% where the income and gains exceed this limit. Higher rates of, respectively, 18% and 28%, apply to gains on property (where not exempt) and to carried interest.

### Spouses

Transfers between spouses and civil partners are deemed to be at a value that gives rise to neither gain nor a loss. This means it is possible to transfer assets between spouses and civil partners tax-free prior to a disposal to a third party, to take advantage of an unutilised annual exempt amount.

*The capital gains tax rules can be complex. It is advisable that professional advice is sought, ideally before making the disposal.*

### Quote of the month...

“Once you realize you deserve a bright future, letting go of your dark past is the best choice you will ever make.” - Roy T Bennett, The Light in the Heart

## **Corporation tax and trading losses**

Relief may be available where you operate your business through a company and you make a loss. The loss may be set against total profits of the current or previous accounting periods or may be carried forward and set against future trading income from the same trade.

### **Computing the trading loss**

A trading loss is computed in the same way as a trading profit and normal rules apply. However, it should be noted that trading income does not include any chargeable gains, so chargeable gains are not taken into account in computing the loss.

The loss may be augmented by capital allowances and reduced by any balancing charges.

### **Entitlement to relief**

Loss relief is only available while the company carrying on the trade is within the charge to corporation tax in respect of that trade. This is the case where the company is either resident in the UK or resident abroad and carrying on a trade in the UK through a branch or agency.

### **Relief against total profits of same period**

The first way in which relief for a trading loss may be given is against total profits of the accounting period for which the loss was incurred. Chargeable gains are not included in the computation of the trading loss, so if the company has chargeable gains in the period in which the loss was incurred, these can be sheltered by the loss.

### **Relief against total profits of a previous period**

Once a claim has been made to set a trading loss against total profits of the period in which the loss was incurred, the balance of the loss can be carried back and set against the total profits of previous accounting periods to the extent that they fall within the period of 12 months immediately preceding the start of the loss-making accounting period. It is only possible to carry a loss back once it has been set against total profits of the period of the loss. However, any loss remaining after set-off against current year profits does not have to be carried back – it can go forward.

### **Carry forward against future trading profits**

The loss may also be carried forward against future trading profits from the same trade. Note that any losses carried forward can be set only against trading profits and not against future chargeable gains.

A loss can be carried forward without the need first to make a claim against total profits of the current period. Where losses remain after carrying back to a previous period, these too can be carried forwards against future trading profits from the same trade.

### **Group relief**

Where the company is a member of a group, losses may be able to be surrendered to other companies in the group.

### **Terminal loss**

A loss in the last 12 months of trading (a terminal loss) can be carried back against total profits of the preceding three years.

### **Anti-avoidance – beware**

There are a number of anti-avoidance provisions that apply to prevent abuse of the loss relief rules, including restrictions where there is a change in the nature of the trade and where losses are uncommercial.

### **Planning**

In general, the aim is to obtain relief sooner rather than later, but at the highest possible rate. Speak to your adviser as to what is best for you.

## Making money from your spare room

Under the rent-a-room scheme, it is possible to earn tax-free income from letting out a furnished room in your own home to a lodger.

You can even use the scheme if you run a bed-and-breakfast or a guest house.

Rent-a-room is not available if the room is unfurnished, or if you let accommodation in a UK home while living abroad. The Government also intends to amend the rules so the scheme is not available to those who let accommodation via Airbnb and similar sites.

### Automatic exemption

No tax is payable if the gross receipts from letting are less than the rent-a-room threshold, set at £7,500 a year from 6 April 2016. The exemption is automatic and does not need to be claimed. Even better, there is no need to tell HMRC about the income.

Gross receipts include rental income before expenses, any amounts received in respect of the provision of services, such as cleaning, meals or laundry, and any balancing charges.

### Gross receipts exceed £7,500

If your gross receipts from letting a furnished room in your home exceed the rent-a-room threshold of £7,500, you can still benefit from the scheme. However, whether it is beneficial to do so will depend on the level of the associated expenses.

Where receipts exceed £7,500, you have a choice as to how to work out the rental profit on which you pay tax. Under method A, you simply deduct the associated expenses and any capital allowances and pay tax on the actual profit. Under method B, you deduct the rent-a-room threshold and pay tax on the difference.

So, if expenses are less than the rent-a-room threshold, method B is beneficial, whereas if they exceed the threshold, method A is better.

### Example

In 2016/17, Greg lets out two furnished rooms in his own home to lodgers. He receives rental income of £8,000. His associated expenses are £1,000. Under method A, he would pay tax on the actual profit of £7,000 (£8,000 - £1,000). Under method B, he would only pay tax on £500 (£8,000 - £7,500).

The rent-a-room scheme is beneficial. Greg opts into the scheme on his tax return and claims the allowance.

### Losses

Rent-a-room will not be beneficial if you make a loss, even if your rental receipts are below the rent-a-room threshold. Under the rent-a-room scheme, you cannot create a loss. Losses can be carried forward and set against future rental income.

### More than one landlord

If a house is owned jointly by two or more people, the rent-a-room limit is halved so each person has a tax-free allowance of £3,750. This is the case regardless of the number of people receiving rental income from letting rooms in the property – so tax-free rental income per property cannot exceed £7,500.

### Opt in and out

You can choose each year whether it is beneficial to use the scheme and opt in and out on your tax return by the normal filing date of 31 January after the end of the tax year.

## Residence nil rate band and downsizing

The residence nil rate band (RNRB) is an additional nil rate band, which is available where a death occurs on or after 6 April 2017 (or, in the case of married couples and civil partners, the death of the second spouse/civil partner occurs after that date) and the property is left to direct descendants.

The RNRB is set at £100,000 for 2017/18, £125,000 for 2018/19, £175,000 for 2019/20, and £175,000 for 2021/21.

The allowance is reduced by £1 for every £2 by which the value of the estate exceeds £2 million.

As with the normal nil rate band, any unused portion is transferred to a spouse or civil partner on his or her death.

### Downsizing

Availability of the RNRB may be preserved where a person downsizes on or after 8 July 2015. If at the date of death the estate does not qualify for the full RNRB, a downsizing addition may be available if the following conditions are met:

- the deceased disposed of a former home and either downsized to a less valuable home or ceased to own a home, on or after 8 July 2015;
- the former home would have qualified for the RNRB;
- at least some of the estate is inherited by direct descendants.

The amount of the downsizing addition will generally be equal to the amount of the RNRB that is lost because the residence no longer forms part of the estate. Assets at least equal to the RNRB plus downsizing addition must be left to direct descendants.

## Residence nil rate band and downsizing - Continued

### Calculating the downsizing addition

1. Work out the RNRB that would have been available when the disposal of the former home took place (set at £100,000 where this is between 8 July 2015 and 5 April 2017) plus any transferred RNRB available at the date of death.
2. Divide the value of the home by the figure in step 1 and multiply by 100%. If the value of the former home is more than the step 1 value, the percentage is 100%.
3. If there is a home in the estate at death, divide the value of the home on death by RNRB available on death and multiply by 100%.
4. Deduct the step 3 percentage from the step 2 percentage.
5. Multiply the step 4 result by the additional threshold available at death to get the downsizing addition. If the person has downsized to a less valuable home, but this is still more than the RNRB at death, there will not be a downsizing addition.

### Case study

Jack and Eva sold their family home in September 2016 for £500,000 and bought a retirement flat. Eva died in April 2017, leaving all her estate to Jack. Jack died in August 2020, leaving his estate, valued at £900,000 equally to the couple's two daughters. The retirement flat is valued at £280,000.

The downsizing addition is calculated as follows:

1. The RNRB available when the property was sold was £100,000. Jack is also entitled to a transferred RNRB of £175,000. The total available is therefore £275,000.
2. The value of the disposed residence is more than £275,000, so the percentage is 100%.
3. The value of the home at the date of Jack's death is £280,000. The RNRB available is £350,000 (RNRB nil rate band for 2020/21 plus 100% transferred nil rate band unused by Eva).
4. The retirement flat uses up 80% of the RNRB available at death ( $\text{£280,000} / \text{£350,000} \times 100\%$ ).
5. The lost RNRB is 20% ( $100\% - 80\%$ ). This is available as a downsizing addition of £70,000 (20% of £350,000).

## 'Relevant goods' and the VAT flat rate scheme?

The VAT flat rate scheme is a simplified VAT scheme, which allows small traders (turnover of £150,000 excluding VAT) to account for the VAT that they pay to HMRC by reference to a percentage of their VAT-inclusive turnover.

Prior to 1 April 2017, the percentage (the flat rate percentage) depended only on the business sector in which the business operated. However, from 1 April 2017 it is also necessary to determine whether the business counts as a 'limited cost business'. Where a business meets the definition of a limited cost business, the VAT payable to HMRC is calculated as 16.5% of VAT-inclusive turnover for the period rather than by reference to the (lower) flat rate percentage for the business sector. The calculation needs to be performed separately for each VAT period.

### Limited cost business

A limited cost business is one where the spend on 'relevant goods' is either:

- less than 2% of the VAT flat rate turnover; or
- more than 2% of VAT flat rate turnover but less than £1,000 a year.

If the period is less than one year, the £1,000 threshold is proportionately reduced (so £250 per quarter).

### Relevant goods – what counts?

Relevant goods are goods that are used exclusively for the business. Crucially, they must be 'goods' not 'services'. VAT Notice 733 gives the following examples of goods that count as relevant goods:

- stationery and other office supplies used exclusively for the business;
- gas and electricity used exclusively for the business;
- fuel for a taxi owned by a taxi firm;
- stock for a shop;
- cleaning products to be used exclusively for the business;
- hair products to provide hairdressing services;
- standard software provided on a disk;
- food to be used for meals for customers;
- goods provided by a subcontractor and itemised separately;
- goods brought into the UK if they are not otherwise excluded;
- goods bought without VAT being charged if they are not otherwise excluded.

The above list is not exhaustive and other goods may count as relevant goods depending on the nature of the business. Goods such as these count towards the magic 2% limit.

## ‘Relevant goods’ and the VAT flat rate scheme? - Continued

A person receives ‘goods’ where ownership is passed to the business from another person or where title passes at a later date, such as goods purchased on hire purchase. The supply of water, power, heat, refrigeration, and ventilation is also a supply of goods (although hiring equipment to provide these is a supply of services).

### Goods that don’t count

In the main, items that are services rather than goods do not count as relevant goods. VAT Notice 733 contains the following list of examples of supplies that aren’t relevant goods:

- accountancy fees;
- advertising costs;
- items leased or hired;
- goods not used exclusively for the purposes of the business;
- food and drink for consumption by the owner or the staff;
- fuel for a car unless the business operates in the transport sector;
- electronic devices used in the business, such as laptops and phones (which are capital expenditure);
- anything provided electronically, such as downloads;
- rent;
- downloadable software;
- bespoke software;
- stamps and other postage costs (which are payments for services).

Again, the list is not exhaustive.

Further guidance on the flat rate scheme and the limited cost business rules can be found in VAT Notice 733.

## Enable Me Raises £2,350 at its Charity Golf Day

Compass Accountants’ client Enable Me recently hosted a fundraising event raising over £2,350 at its Golf Day at Littlehampton Golf Club. Compass Accountants were delighted to be co-sponsors of the golf day together with Active Pump Services of Arundel.

The event, now in its third year, saw a record number of 42 players compete in teams of four, playing for several prizes including nearest to the pin, longest drive and best score of the day.

The teams played an enjoyable but challenging round -courtesy of a blustery north wind- but it was the Compass team that were crowned winners of the overall event!

Compass’ Jeff Walton who led the team, said, “We at Compass have long been advocates of Enable Me and always strive to fully support its cause. Today has been an excellent and fun day, and I’m delighted that it has been such a success for Enable Me.”

Compass was pleased to have had support from friends and clients including TS Tyre Repairs of Fareham, Kraft Recruitment of Portsmouth and Holmes & Quinn of Titchfield playing as The Royals.

Due to the popularity of the event Enable Me is hoping to make the date bi-annual in order to raise more funds and to accommodate the players that were unable to book a place on the day.

It is likely the next Golf Day will be on a different course, with rumours of it being closer to Compass’ offices in Hampshire (keep an eye on the Compass Newsletter for further updates if you are interested in playing).



**Compass Accountants - Portsmouth**



**Action Pumps - Littlehampton**



## Enable Me Raises £2,350 at its Charity Golf Day - Continued



**Holmes & Quinn - The Royals**



**Kraft Recruitment - Portchester**

### About Enable Me

Enable Me is a unique user led-disability awareness charity, meaning every employee and volunteer working for the charity has a disability themselves. The charity specialises in providing disability awareness training for businesses, schools, universities and for children of all ages.

The charity helps to demonstrate the needs, challenges and unique life experiences of disabled people in a variety of environments. Having most recently extended its offering to businesses, Enable Me now offers training for organisations of all sizes based around etiquette, communication, correct use of language, and inclusive behaviour, as well as legislation and adapting the business environment.

[www.enablemeproject.org.uk](http://www.enablemeproject.org.uk)

Enable Me has received a donation from The Co-Op Local Community Fund to allow them to deliver awareness-training to local schools. This is an initiative that Chris Jay, CEO of Enable Me is seeking to roll out with other corporate's who want to benefit local schools in their area. They welcome corporate support.



**T S Tyres - Fareham**



**Chris Jay - CEO Enable Me**

## Protect Yourself from the Cost of an HMRC Investigation

At Compass Accountants we can provide you with a Fee Protection Service to protect you from the costs that may arise as a result of a Tax or VAT Enquiry from HMRC.

An investigation could cost you money even if you've done nothing wrong and anyone can be selected: a business, a director or an individual tax payer.

The Fee Protection we can provide is an all-embracing Policy that provides you with the ultimate protection.

### The detail

The service covers up to the equivalent of **£100,000** towards our professional fees resulting from an HMRC Enquiry.

Any compliance check started by HMRC regarding your compliance with:

- Income Tax and/or Corporation Tax Self-Assessment
- PAYE
- National Insurance
- VAT
- IR35
- Construction Industry
- National Minimum Wage or Gift Aid Legislation and Regulations and;
- Any consequent dispute with HMRC after the issue of an assessment, computation of liabilities, written decision, notice of VAT civil penalty or notice of underpayment of the National Minimum Wage.

### Peace of Mind

Included as part of the Fee Protection Service is comprehensive access to the Employment Law, Health and Safety and HR expertise, all at no cost to you.

You'll gain valuable access to highly experienced consultants who can provide you their guidance and knowledge on a wide variety of subjects and issues.

Compass Accountants is supported by Croner Taxwise Limited – the market leading Fee Protection Insurance provider in the UK.

## Visiting Fleet Air Arm Museum- Linda's trip down memory lane

*Last month, we sent Compass Accounts' team member, Linda Hopwood- (formally a Wren) to visit a client, at Fleet Air Arm Museum (FAAM) at Yeovilton. Here she describes how she is reunited with a familiar friend on her trip down memory lane:*

"In my previous life (BC – before children) I was fortunate enough to serve as a Wren Air Engineering Mechanic (Mechanical) in the Royal Navy. I was based at Royal Naval Air Station (RNAS) Yeovilton on 899 Naval Air Squadron (NAS) working on Sea Harriers. At that time women did not serve at sea, so the wrens on 899 NAS tended to work on the two seater training aircraft, locally known as T-Birds. The aircraft I looked after was ZB604 – Zebedee (he was already named when I took over).

Fast forward a few years and I am part of the audit team responsible for National Museum of the Royal Navy (MNRN) and Stuart asks for volunteers to visit the Fleet Air Arm Museum (FAAM) at Yeovilton. As I drive down the A303 for RNAS Yeovilton and reach the summit of Camel Hill I view my spiritual home for the first time in years. I am met by Marc Farrance and his team and am very excited to view their collection of beautiful aircraft. Dave Morris then escorts me to Cobham Hall where 30 more aircraft are cared for as there just isn't the room to display all the aircraft in the museum. There, to one side of the hangar in all his glory is my Zebedee and we are once again reunited. It is a very emotional moment. Both of us have altered a little over the time and are showing signs of age, although Zebedee is sporting a new beautiful black coat (of paint). Dave tells me that Zebedee's fate was nearly very different. He spent 3 years outside the hangar collecting rust and dust until the FAAM asked to adopt him to complete their set of Harriers.

Huge thanks must go to Marc, Nicky, Bob, Barbara and especially Dave for their time indulging me in my trip down memory lane."

**Linda Hopwood, Member of the Compass Accountants Team.**





## Compass welcomes the Museum of Army Flying

Compass Accountants is very pleased to welcome on board its newest client, The Museum of Army Flying. The museum, based in Middle Wallop, tells the distinguished and powerful story of flying in the British Army - from experiments with balloons in the 19<sup>th</sup> century to today's modern Army Air Corps.

The museum itself contains over 40 aircraft and hundreds of interesting artefacts, with archives holding over 500,000 documents and 30,000 photographs.

Located next to the Army's airfield at Middle Wallop, visitors can sit on the café balcony and watch operational aircraft going through their paces, often just a few yards away. Young children can also enjoy the outdoor play area adjacent to the airfield.



When tickets are purchased with Gift Aid, a ticket holder has free access to the museum for a whole year –and during school holidays, the museum provides children's activities each day between 11am and 2pm.

The museum hosts a series of fascinating talks by renowned historians as well as those giving first-hand accounts of operations in which they were previously involved with.

Last year, the Heritage Lottery Fund approved the Museum's plans to undergo a major programme of modernisation (named '*Project Eagle*') costing £2.3m, to which the Museum has to contribute £800k. There is therefore a major fundraising campaign in progress.

The museum hopes to complete the modernisation project by late 2019. Details of all the Museum has to offer and how you can support the modernisation project can be found on their website <https://www.armyflying.com>

Stuart Lawrance, director of Compass, says 'not only does the Museum have a huge selection of full size exhibits, but being situated adjacent to such a large grass airfield makes a visit to the café especially enjoyable.'





## Tax Diary June/July 2017



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