COMPASS ACCOUNTANTS

TAX ANGLES FOR PROACTIVE PLANNING

Newsletter - March 2019

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Importance of registering for child benefit even if the High-Income Child Benefit charge applies

Parents affected by the High-Income Child Benefit charge (HICBC) can be forgiven for thinking that there is no point is registering for child benefit if they are only going to have to give back everything they receive in the form of the tax.

The HICBC applies where the parent claiming child benefit or their partner has income of more than £50,000 a year. The charge is set at 1% of the child benefit received for each £100 by which income exceeds £50,000. So, for example, if income is £57,000, the charge is equal to 70% of the child benefit received (((£57,000 - £50,000)/£100) x 1%). Once income reaches £60,000, the charge is equal to 100% of the child benefit received. The amount of child benefit received depends on the number of children – it is payable at a rate of £20.70 per week for the first child and £13.70 per week for each subsequent child.

Where both partners have income in excess of £50,000, the charge is levied on the partner with the higher income; this is often not the person who received the benefit.

Child benefit also confers state pension rights. Parents registered for child benefit in respect of a child under 12 automatically receive Class 3 National Insurance credits.

Class 3 credits have the effect of making a year a qualifying year for state pension (but not contributory benefit) purposes. Thus, each year that a parent is registered for child benefit for a child under 12 provides one qualifying year for state benefit purposes. A person needs 35 qualifying years for the full single-tier state pension and at least ten to receive a reduced state pension.

Failing to register for child benefit can mean missing out on an automatic entitlement to at least 12 qualifying years; this is particularly important if the claimant is a stay-at-home parent or works part time but does not pay sufficient Class 1 or 2 contributions to make the year a qualifying year.

If receiving the money and having to pay it back is a worry, it needn't be. It is possible to register for child benefit and to elect not to receive it. This can be done online or by contacting HMRC's child benefit office. Parents can restart the payment of child benefit if circumstances change and the full HICBC no longer applies (for example if income dips below £60,000). Where income is between £50,000 and £60,000 it is worth claiming the benefit as the HICBC will be less than the benefit received. Ring-fencing the amount needed to pay the charge in a separate account will remove some of the worry over having the funds available to pay the tax.

As claims for child benefit can only be backdated three months, parents affected by the HICBC who have opted not to claim child benefit should do so without delay. Registering for child benefit will also ensure that the child receives a National Insurance number on reaching age 16.

Using the cash basis – is it for you?

The cash basis is a simpler way of working out taxable profits compared to the traditional accruals method. The cash basis takes account only of money in and money out – income is recognised when received and expenses are recognised when paid. By contrast, the accruals basis matches income and expenditure to the period to which it relates.

Consequently, where the cash basis is used there is no need to recognise debtors, creditors, prepayments and accruals, as is the case under the accruals basis.

Example
Ben is a self-employed plumber. He prepares accounts to 31 March each year. On 28 March 2019 he fits a new shower, invoicing the customer £600 on 29 March 2019. The customer pays the bill on 7 April 2019.

He purchased the shower for £400 on 25 March 2019, receiving an invoice from his supplier dated the same date. He pays the bill on 8 April 2019 after he has been paid by the customer.

On the cash basis, the income of £600 and expenditure of £400 fall in the year to 31 March 2020 – they are recognised, respectively, when received and paid (in April 2019). By contrast, under the accruals basis, the income and expenditure falls into the year to 31 March 2019 as this is when the work was done and invoiced.

Who can use the cash basis?
The cash basis is available to small self-employed businesses (such as sole traders and partnerships) whose turnover computed on the cash basis is less than £150,000. Once a trader has elected to use the cash basis, they can continue to do so until their turnover exceeds £300,000. These limits are doubled for universal credit claimants.

Limited companies and limited liability partnerships cannot use the cash basis.

Advantages of the cash basis
The main advantage of the cash basis is its simplicity – there are no complicated accounting concepts to get to grips with. Because income is not recognised until it is received, it means that tax is not payable for a period on money that was not actually received in that period. This also provides automatic relief for bad debts without having to claim it.

Not for everyone
Despite the advantages associated with its simplicity, the cash basis is not for everyone. The cash basis may not be the right basis for you if:

- you want to claim a deduction for bank interest or charges of more than £500 (a £500 cap applies under the cash basis);
- your business is more complex, for example, you hold high levels of stock;
- your need to obtain finance – banks and other institutions often ask for accounts prepared on the accruals basis;
- you want to claim sideways loss relief (i.e. set a trading loss against your other income) – this is not permitted under the cash basis.

Need to elect
If the cash basis is for you, you need to elect for it to apply by ticking the relevant box in your self-assessment return.

Employees – claim a tax deduction for expenses

Employees often incur expenses in doing their job – this may be the cost of a train ticket or petrol to visit a supplier, or purchasing stationery or small tools which are used in their job. Employers will frequently reimburse the employee for any expenses that they incur, but where such a reimbursement is not forthcoming, the employee may be able to claim a tax relief.

The test

Employment expenses are deductible only if they are incurred 'wholly, exclusively and necessarily in the performance of the duties of the employment'. The test is a harsh test to meet; the 'necessary' condition means that 'each and every' jobholder would be required to incur the expense. Consequently, there is no relief if the expense is not 'necessary' and the employee chooses to incur it (even if the 'wholly and exclusively' parts of the test are met). The rules for travel expenses are different, but broadly operate to allow relief for 'business travel'.

In the performance of the job v putting the employee in a position to do the job

A distinction is drawn between expenses that are incurred in actually performing the job and those which are incurred in putting the employee in the position to do the job. Expenses incurred in travelling from the office to a meeting with a supplier and back to the office are incurred in performing the job. By contrast, childcare costs or home to work travel are incurred to put the employee in a position to do the job. Relief is available only for expenses incurred as part of the job, and not for those which incurred, albeit arguably necessarily, to enable the employee to do the job.

Expenses for which relief may be claimed

A deduction can be claimed for any expense that meets the 'wholly, exclusively and necessarily' test. Examples include professional fees and subscriptions, travel and subsistence costs, additional costs of working from home, cost of repairing tools or specialist clothing, phone calls, etc.

Where the expense is reimbursed by the employer, a deduction cannot be claimed as well; however, the amount reimbursed is not taxable and is ignored for tax purposes.

Using your own car

Where an employee uses his or her own car for business travel, the employer can pay tax-free mileage payments up to the approved rates. For cars and vans, this is 45p per mile for the first 10,000 miles in the tax year and 25p per mile for any subsequent miles.
If the employer does not pay mileage allowances or pay less than the approved amount, the employee can claim tax relief for the difference between the approved amount and the amount paid by the employer.

Flat rate expenses

Employers in certain industries are able to claim a flat rate deduction for certain expenses in line with rates published by HMRC (see www.gov.uk/guidance/job-expenses-for-uniforms-work-clothing-and-tools#claim-table). Although claiming the flat rate removes the need to keep records of actual costs, employees can claim a deduction based on actual costs where this is more beneficial.

How to claim

There are different ways to make a claim depending on your circumstances. Claims can be made online using HMRC's online service, by post on form P87, by phone or, where a self-assessment return is completed, via the self-assessment return.

Employer childcare vouchers v Government scheme

Employees who joined their employer's childcare voucher or employer-supported childcare scheme before 4 October 2018 can remain in that scheme and benefit from the associated tax relief for as long as the employer continues to offer it. However, this may not always be the best option for the employee – depending on their circumstances they may be better signing up to the Government's top-up scheme instead.

Tax relief for employer-provided vouchers

Employees who joined an employer childcare voucher scheme or directly contracted childcare scheme prior to 4 October 2018 can continue to receive the associated tax relief. Vouchers or directly-contracted childcare are tax and National Insurance free up to the exempt amount. This depends on when the employee joined the scheme and, where the employee joined the scheme on or after 6 April 2011, the rate at which they pay tax.

The exempt amount is set at £55 per week where the employee joined prior to 6 April 2011; for employees joining after that date, the exempt amounts are £55 for basic rate taxpayers, £28 per week for higher rate taxpayers and £25 per week for additional rate taxpayers (ensuring the relief is worth £11 per week to all taxpayers).

Each employee is only entitled to one exempt amount to cover childcare vouchers and directly-contracted care, and regardless of how many children they have. However, each parent can benefit from their own exempt amount.

Childcare vouchers and directly-contracted care can be provided via a salary sacrifice or other optional remuneration arrangement without triggering the alternative valuation rules. This means that the tax exemption is preserved where provision is made in this way.

Government scheme

Under the Government scheme, parents can open an online account and receive a tax-free top up of 20p for every 80p that they deposit into the account. The maximum top up is £2,000 per child per tax-year. The Government scheme cannot be used in conjunction with universal credit or tax credits.

Which scheme is best?

Parents cannot benefit from both the employer scheme and the Government scheme, so must choose which is best for them.
Where the employee joined the employer scheme on or after 6 April 2011, the tax relief from employer scheme is worth £11 per week (£583 per year (based on 53 weeks) if one parent receives the vouchers and £1166 if two parents do.

Under the Government scheme, the parents would need to contribute £2332 to receive a top-up of £583 and £4664 to receive a top up of £1166. To benefit from the maximum £2,000 top-up, the parents would need to contribute £8,000.

There is no substitute for crunching the numbers – parents should consider both options and decide what is best for them.

Client Focus - Hooper Services Limited

It was back in 1990, that as a heating engineer, Ian Hooper decided to launch his own business. Initially, as a sole trader, he focused mainly on the repair of numatic vacuums and ran the business from his mum's conservatory.

Fast forward 29 years, and Hooper Services Ltd is a well-established business with a showroom, offices, workshop and warehouse, employing 14 people from its site in Farlington, Portsmouth.

"Our service offering has continuously developed." explains Ian. "Now, not only do we provide repairs for cleaning equipment, we also provide Portable Appliance Testing (PAT), we offer training courses, supply white goods, machinery and chemical products and are now the preferred suppliers for around 20 local authorities across the UK."

The development of the contracts with the various local authorities has also led Hooper Services to generate further business across a variety of fields. "Our work is varied.continues Ian. "As are the sectors we work within. We have several contracts to supply white goods and cleaning equipment- from a Henry vacuum to machinery that you drive- we also PAT test schools, care homes, offices and factories, to mention a few, and provide janitorial products and electrical maintenance."

"It's very rare that we aren't able to save an organisation money – be it a business or local authority. Because we are independent, we aren't tied to a brand therefore we can really show people the true breadth of their options. And, we don't just sell- we repair and service all the items we sell. Typically, if something goes wrong, a business will have to box something up and send it back – all of which is very time consuming.

We are able to despatch an engineer immediately, to resolve the issue and we can repair or even replace the goods straight away. We like to think we can go anywhere and come up with a solution to a problem, whether its electrical maintenance, white goods, PAT testing or cleaning machinery."

"We now have plans of further expansion, as we are about to begin using a brand-new range of products. These are expected to be a huge success as they don't use chemicals.

We are also about to start using a new innovative sanitising product that electrically charges water and allows you to sanitise a room in approximately 15 minutes – which will save organisations a huge amount of time."

On Meeting Compass

Ian explains how Hooper services came to be a client of Compass Accountants:

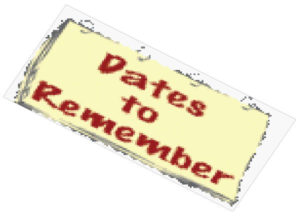
"It was a few years ago now, that we had decided that we wanted more from our existing accountancy firm, and so we looked around at other local accountants.

We went through a process of interviews and Compass stood out as the most approachable, and amenable. We decided to go with them and weren't disappointed.

They have always been very friendly and easy to work with."

If you would like to find out more about Hooper Services Ltd- or would like to visit their website- go to www.hooperservices.co.uk

Tax Diary
March/April 2019



1st March 2019 Due date for Corporation Tax for years ended 31st May 2018.

19th March 2019 PAYE and NIC deductions due for month ended 5th March 2019. (If you pay your tax electronically the due date is 22nd March 2019)

19th March 2019 Filing deadline for the CIS300 monthly return for the month ended 5th March 2019.

19th March 2019 Due date for CIS tax deducted for the month ended 5th March 2019.

1st April 2019 Due date for Corporation Tax for years ended 30th June 2018.

19th April 2019 PAYE and NIC deductions due for month ended 5th April 2019. (If you pay your tax electronically the due date is 22nd April 2019)

19th April 2019 Filing deadline for the CIS300 monthly return for the month ended 5th April 2019.

19th April 2019 Due date for CIS tax deducted for the month ended 5th 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.

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