Compass Accountants

Newsletter - March/April 16

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

TaxAngles - For proactive tax planning

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100% capital allowance for your car

Cars do not qualify for the annual investment allowance, but by choosing a low or zero emission car it is possible to secure a 100% deduction in the year of purchase in the form of a 100% first year allowance.

What is a low emission car?

For capital allowance purposes, since 1 April 2015 a car is a low emission car if its CO2 tailpipe emissions are 75g/km or less. Until 31 March 2018, expenditure on new cars that meets this emissions test will qualify for a 100% first year allowance. This provides immediate write off against profits. It should be noted that it is only new cars that qualify – the 100% first-year allowance is not available for second-hand cars, even if they have CO2 emissions of 75g/km or less.

Example

John runs a small business, J Ltd, and purchases a car for use in that business. He chooses a fuel-efficient model with CO2 emission of 65g/km. The car costs £12,000 and John buys it new in February 2016. J Ltd prepares accounts to 31 March each year.

In computing his profits for the year to 31 March 2016, he can claim a first year allowance of £12,000 in respect of the car.

Added benefit

Choosing a low emission car will also keep the benefit in kind charge low. Petrol cars with CO2 emissions of 51—75g/km are taxed on 9% of the list price in 2015/16 and on 11% of the list price in 2016/17.

Non-business use

If the car is used by an unincorporated business for both business and private use, the first year allowance can still be claimed, but must be reduced to reflect non-business use.

Example

Jessica is a sole trader and buys a small car, which she uses for both business and private mileage. The car has CO2 emissions of 60g/km and costs £8,000. Jessica buys it new in January 2016. 80% of her mileage is for business use and 20% is private use.

She is able to claim a first-year allowance of £6,400 (being 80% of £8,000).

No requirement to claim

It will not always be beneficial to claim the 100% first year allowance (for example, if the business does not have sufficient profits to utilise the allowance or is only planning to keep the car a short time and would prefer not to trigger a balancing charge). Instead, a writing down allowance (at 18%) can be claimed.

Capital allowances for cars which are not low emission cars

Cars which have CO2 emissions in excess of 75g/km do not qualify for the 100% first-year allowance. Instead, writing down allowances are given. The rate of writing down allowances depends on the CO2 emissions level of the car. If it is below 130g/km, writing down allowances are given at the rate of 18%.

However, cars which have CO2 emissions of 130g/km or more are only eligible for writing down allowances of 8%.

Quote of the month...

"Results are gained by exploiting opportunities, not by solving problems"

Business premises renovation allowance

Business premises renovation allowance (BPRA) was introduced as an incentive to encourage businesses to bring derelict or unused business properties in disadvantaged areas back into use. The allowance takes the form of a 100% capital allowance for certain expenditure incurred in the renovation or conversion of a qualifying property into qualifying business premises.

BPRA has been available since 11 April 2007. It is due to come to an end on 31 March 2017 for corporation tax purposes and on 5 April 2017 for income tax purposes.

Qualifying buildings

BPRA is only available in respect of expenditure on qualifying buildings. These are commercial buildings or structures in an area designated as a disadvantaged area (but which have not been previously used or are available as a dwelling).

Qualifying business premises

A qualifying building becomes qualifying business premises when it is used or available and suitable for use for letting for the purposes of a trade, profession to vocation, or as an office or offices. The building cannot be used, or available for use, as or as part of a dwelling.

Qualifying expenditure

The allowance is given in respect of ‘qualifying expenditure’. This is capital expenditure incurred in:

- converting a qualifying building into qualifying business premises;
- renovating a qualifying building that is or will become qualifying business premises; or
- repairing a qualifying building.

More specifically, the type of expenditure that may qualify for the allowance includes expenditure on:

- building works (labour and material costs);
- architectural and design services;
- surveying costs;
- engineering services;
- planning applications; and
- any statutory fees or permissions.

Plant and machinery expenditure only qualifies to the extent that it is incurred on the following:

- integral features;
- automatic control systems (for opening and closing doors, windows or vents);
- window cleaning installations;
- fitted cupboards;
- blinds;
- protective installations (e.g. fire alarms, fire escapes, sprinklers, etc.);
- computer-based building management systems to control mechanical and electrical equipment such as lighting, ventilation, power systems, fire systems and security systems;
- cabling for telephone, audio-visual data installations and computer networking facilities;
- sanitary appliances and bathrooms comprising hand driers, counters, partitions, mirrors and shower facilities;
- kitchen and catering facilities;
- signs;
- public address systems; and
- intruder alarm systems.

Amount of relief

Qualifying expenditure is eligible for an initial allowance of 100%, providing immediate write-off against profits. It is not mandatory to claim the 100% allowance and to the extent that the allowance is not claimed or is not claimed in full, the expenditure is eligible for a writing down allowance, which is given on a straight line basis at 25%.

A balancing adjustment is made if a balancing event (e.g. the sale of the relevant interest) occurs within five years of the date of first use of the building after renovation or conversion. If the expenditure was incurred before 1/6 April 2014, the trigger period is seven years.

Need to know

There is a limited period for claiming this relief as it is due to come to an end in 2017.

Giving your home away

It is possible to escape inheritance tax on gifts by surviving for seven years after the date of the gift. However, the benefit of making lifetime gifts may be lost if the gift comes with strings attached.

Gifts with reservation of benefit rules

The gifts with reservation (GWR) provisions are anti-avoidance provisions, which are designed to target arrangements whereby the donor gives an asset away but continues to have the use of enjoyment of an asset. This would be the case where, say, a mother gave her home to her daughter and continued to live in it rent-free.

Impact of the rules

The GWR rules negate the benefit of making a potentially exempt transfer (PET) and where the donor retains a benefit caught by the rules, their estate will have to pay inheritance tax on the gift, even if the donor lives for seven years (or more) after making the gift.

Giving your home away – beware the GWR rules (continued)

If the reservation of benefit is lifted (say the mother moves out), the gift become as PET from the date from which there ceases to be a benefit and the seven-year clock starts running.

However, if you give away your home and move away, you can still make short visits to stay in the property without triggering the GWR rules. Using the example of a mother giving her home to her daughter, if the mother moved away, for example to live in a care home, and stayed with her daughter in her former home occasionally, the rules will not apply and the gift will be a PET.

Paying market rent

It is also possible to escape the GWR rules by giving away your home and continuing to live in it, if you pay a market rent to the recipient. This can be a useful strategy. However, it is important that the rent paid is at the market rate. Paying a notional rent will not prevent the GWR rules from biting. Also, the recipient will be liable for income tax on the rent received.

Other considerations

When considering giving your home away, possibly as a strategy to save inheritance tax, it is worth remembering that you will no longer be the legal owner and even if you plan to rent it from your children, it is possible that if you fall out they may decide to sell it, leaving you without a home. Also, should you outlive the recipient, the house will form part of their estate and will be passed on in accordance with their will (or intestacy laws if they have not made a will). You will also need to be careful that the gift is not construed as a 'deliberate deprivation of assets' in order to avoid paying for residential care.

Main residence relief and periods of deemed occupation

Most people are aware of the existence of the capital gains tax exemption for their only or main home, but it is probably fair to say that the intricacies of the relief are less well known. For the gain to be fully exempt, the property must have been occupied as the taxpayer's only or main residence throughout the period of ownership. However, there are certain periods which are treated as periods of occupation, even if the taxpayer was not actually occupying the house as a main residence at that time.

The last 18 months

If a property has been occupied as the taxpayer's only or main residence at some point during the period of ownership, the last 18 months of ownership are exempt. This applies even if the taxpayer has another property which at that time is his or her main residence.

A three-year period of absence

A period of absence of up to three years (or shorter periods which together add up to no more than three years) may be treated as a period of occupation if the further conditions below are met.

Performance of duties

A period of absence of not more than four years (or periods of absence which together do not exceed four years) throughout, which the taxpayer was prevented from living in his main residence by virtue of a condition imposed by his employer requiring him to live elsewhere in order to perform the duties of his employment effectively, is deemed to be a period of occupation, as long as the further conditions below are met. This period of deemed occupation extends to the taxpayer's spouse or civil partner if they too were absent from the main residence because they were living with the taxpayer.

Employment abroad

Any period during which the taxpayer was in an employment where all the duties of that employment were performed outside the UK, or during which the taxpayer lived with a spouse or civil partner who worked in such an employment is also treated as a period of occupation, provided the further conditions below are met.

Further conditions

With the exception of the last 18 months, two further conditions must be met for the periods of absence detailed above to qualify for periods of deemed occupation.

Condition A is that there was a period of time whether the dwelling house was the individual's only or main residence.

Condition B is that:

- there was a period of time when the dwelling house was the individual's only or main residence;
- other than for a period of absence of up to three years, the individual was prevented was resuming residence in the dwelling house as a result of the situation of the individual's place of work; or a condition imposed on the terms of the employment requiring the employee to reside elsewhere in order to secure the effective performance of the duties; or the taxpayer lived with a spouse or civil partner in respect of whom this applies.

Any gain attributable to a deemed period of occupation benefits from the main residence exemption.

Need to know
The main residence exemption can still apply to gains attributable to periods of absence if the period of absence is deemed to be one of occupation.

Reducing your payments on account

Under the self-assessment system, an individual is required to make payments on account. These are essentially advance payments towards the individual's tax bill.

When are payments on account required?

Payments on account must be made if the previous year's tax bill (including any Class 4 National Insurance) is £1,000 or more. However, the requirement to make a payment on account is lifted if more than 80% of the tax due for that year has been collected either via the employee's tax code or deducted at source (for example, by a bank on interest paid on savings).

Due dates

A payment on account of 50% of the previous year's liability must be made on 31 January in the tax year and on 31 July after the tax year. Any balance owing in the event that the final bill is more than the payments on account must be made by 31 January after the end of the tax year. If too much tax is paid on account, the excess is refunded. Interest is charged on payments on account made late.

Reducing payments on account

Making payments on account by reference to the previous year's liability inherently assumes that the current year's liability is at least that of the previous tax year. There are many reasons why this will not be the case, for example if profits fall or a source of income ceases. Where the taxpayer knows that his income will fall, he can apply to reduce his payments on account.

This can be done be done online by logging into your account and selecting the 'reduce payments on account' option or by completing form SA303 (available to download on the GOV.UK website at www.gov.uk/government/publication/self-assessment-claim-to-reduce-payments-on-account-sa303) and sending it to the tax office.

Beware

If you reduce your payments on account too much, interest will be charged on the shortfall from the date that the payment on account was due.

Example

Kate runs a small business as a sole trader. For 2014/15 her tax and Class 4 NIC liability was £2000. On this basis she is due to make payments on account of £1,000 for 2015/16 on 31 January 2016 and 31 July 2016. Any balance not covered by the payments on account will be due by 31 January 2017.

However, Kate took a four-month break during the year to 31 March 2016 and reduced her hours in order to look after her elderly mother. As a result, she estimates he tax bill for 2015/16 will be £1,200. She makes a claim online to reduce her payments for the year to £1,200, making payments on account of £600 on 31 January 2016 and £600 on 31 July 2016. Assuming her final tax bill is £1,100, she will receive a refund of £100 once she has filed her 2015/16 return.

Need to know

If you think your tax bill for the current tax year will be less than for the previous year, you can apply to reduce your payments on account.

Client focus: Aaron Tilley to Run the London Marathon for Charity

Managing Director of A D Mechanical Services, and valued client of Compass Accountants, Aaron Tiley, will this be 'on his marks' in April, as he prepares to enter the London Marathon to raise money for charity.

Aaron, who is currently in training for the event, will be running the marathon to raise money for the charity, 'Children with Cancer UK' and will embark on his journey of 26.2 miles on the 24th April 2016.

He is hoping to raise significant funds for the very worthwhile charity, dedicated to fighting childhood cancer. Children with Cancer UK is Britain's leading charity dedicated to the conquest of this devastating disease and undertakes ground-breaking research into the development of more effective, yet kinder, treatments. It is also conducting extensive research and investigating the underlying causes of the disease.

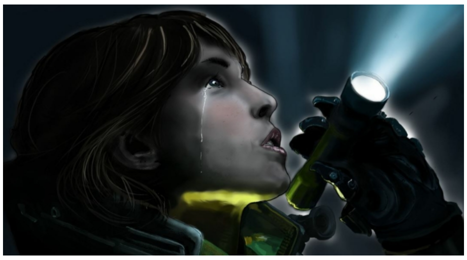
If you would like to sponsor Aaron, go to his 'Just Giving Page' which can be found here: http://uk.virginmoneygiving.com/AaronTilley Just press 'Donate' directly from the 'Just Giving Page' and your valuable donation will then be sent directly to the charity. For more information on the charity, visit www.childrenwithcancer.org.uk

Client focus: Blue Donut Studios- *Marcus Pullen*

This month we catch up with the Managing Director of Blue Donut Studios, Marcus Pullen, to talk about how his organisation uses technology and creativity to help businesses to tell their story…

Blue Donut Studios is an independent multimedia production company based in Eastleigh, working with professional artists and developers from all around the world. Having launched in 2013, Blue Donut has already worked with a diverse range of organisations across a wide spectrum of sectors.

When asked about the services Blue Donut offers, Managing Director, Marcus Pullen explained "In a nutshell, we use creativity and technology to tell a story- whether it is for people, data, systems, brands, or products. We find the most appropriate method of communicating with a client's target audience and create informative, provocative, interactive and entertaining results."



Blue Donut are experts in conveying messages through narrative, using all formats of multimedia from film and infographics to animation, storyboards, comics and illustrations.

The studio has worked on a vast number of projects boasting clients such as NHS, CreditPlus, Fairline and TeamJobs whilst also working on animation films and even creating pop videos (most recently for the soul star, Joss Stone whose video which has so far accumulated over 5 million hits).

"YouTube has become one of the most powerful marketing tools in today's global economy." explains Marcus, "Therefore, more and more businesses are seeing the benefit of using film to reach their audiences. But it doesn't stop there. There are so many ways that you can convey the message of your organisation through storytelling, helping you to reach the right audience and engage effectively with your customers."

Blue Donut also provide companies with the opportunity to utilise the data they have at hand, and have developed a Data Storytelling service. Here Blue Donut will present your business intelligence, scientific data or survey information in an engaging presentation, animation, video or interactive application.

"In today's day, many organisations have access to a vast amount of data." Marcus adds, "We work with organisations to effectively communicate the story they have to tell through this information- whether its explaining sales figures or offering insights into specific trends we can give an organisation's data the meaningful impact it has the potential for."

Having been a client of Compass' since launching, Kerry Lawrance (Director) helped Marcus make the first steps in becoming a limited company. "Kerry has been great." Explains Marcus. "In fact, everyone at Compass is friendly and there is a real personal touch and professionalism in the way they work. Now, I know if I ever want to arrange to meet Kerry or discuss any issues that arise – I can do so, without being sent an invoice every time I need advice. I really value the relationship I have with Compass."

Are you interested in giving your company a voice? Would you like to find out more about conveying your message through the right media platform?

If so, Marcus is planning to run a series of practical workshops, that will be aimed at businesses that want to give their sales and communication strategies a professional, competitive edge.

The first course: 'Strategies on making videos and infographics', would cover:

- Understanding when, why and, more importantly, when not to use video when marketing your business
- Developing the ability to critique established Brands and their video strategies, what works and what doesn't
- Creating a working plan for developing the process from commission through to creation and deployment
- Developing actionable strategies for selling to the YouTube generation
- Identifying return on investment and performance indicators

If you would be interested in attending Blue Donut's workshops, drop us a line at info@compassaccountants.co.uk and we'll provide you with the dates and details of these as and when they arise.

If you have any other questions, or would like to find out more about how Blue Donut can help you call 07795 636 267 or email Marcus directly: marcus@bluedonutstudios.com

Compass continues to provide services to the travel industry as a licensed practitioner

Compass Accountants is delighted to announce that we are now fully licensed as an ‘ATOL Reporting Accountancy Firm’, following Director, Kerry Lawrance’s recent achievements in passing the required ICAEW training.

As from the 1st April 2016, any accountant that acts on behalf of an ATOL licence holder, or wishes to submit ATOL Accountants’ Reports to CAA (Civil Aviation Authority), must be an ‘ATOL Reporting Accountant.’

The CAA has developed the scheme to help improve the standard of ATOL reporting and to provide assurance that any financial information submitted to them is accurate.

They have designed the scheme to ensure accountants are sufficiently knowledgeable about the travel industry as well as the requirements of the ATOL scheme.

As a uniquely complex and specialist area, ATOL reporting demands that licensed practitioners possess a strong knowledge of both the travel sector and the ATOL regulatory environment. Having proven this throughout her recent training and examinations, Kerry is now approved as a license practitioner, and is therefore able to continue her work with clients, as a specialist in the travel industry.

Kerry explains, “We are thrilled to be able to continue working with businesses in the travel sector as we have established strength in this industry. It also allows us to reach out to other businesses in this sector, who may not be aware of the changes, or may not currently be receiving this level of expertise from their advisor.”

If your accountant has not submitted their application in time, or is no longer a licence holding practitioner, call us now.

For any further information on Compass as an ATOL Reporting Accountant, or to discuss our services in the travel industry- contact Kerry on 01329 443457.

Compass sets a good Eggs-ample!

Compass’ Easter celebrations started early this year, with our contribution of 20 chocolate eggs to Reed Specialist Recruitment’s charity egg donation.

The staff from Reed visited the Compass office to collect the eggs, which they will later donate to several charities across Hampshire. The recruitment company has, once again – pledged to raise over 1000 Easter eggs for children and vulnerable teenagers who receive support across Hampshire.

“We wish Reed the best of luck reaching 1000 eggs”, said Kerry Lawrance, “It’s a great cause and we’re proud to play a part. It’s good to know that the children who are in most need won’t miss out this Easter.”

Tax Diary
March/April 2016

1 March 2016 Due date for Corporation Tax for years ended 31 May 2015.

19 March 2016 PAYE and NIC deductions due for month ended 5 March 2016. (If you pay your tax electronically the due date is 22 March 2016)

19 March 2016 Filing deadline for the CIS300 monthly return for the month ended 5 March 2016.

19 March 2016 Due date for CIS tax deducted for the month ended 5 March 2016.

1 April 2016 Due date for Corporation Tax for years ended 30 June 2015.

19 April 2016 PAYE and NIC deductions due for month ended 5 April 2016. (If you pay your tax electronically the due date is 22 April 2016)

19 April 2016 Filing deadline for the CIS300 monthly return for the month ended 5 April 2016.

19 April 2016 Due date for CIS tax deducted for the month ended 5 April 2016.

19 April 2016 PAYE and NIC deductions due for quarterly payments. (If you pay your tax electronically the due date is 22 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 Jeff Walton on 01329 844145.

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