Compass Accountants

Newsletter - March/April 17

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

TaxAngles - For proactive tax planning

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Using the capital gains tax exempt amount

As the end of the 2016/17 tax year draws to a close, it may be worth taking stock of your capital gains tax position and accelerating any disposals likely to generate a gain where the 2016/17 annual exempt amount remains available.

The exempt amount
All individuals are entitled to an annual exempt amount for capital gains tax purposes. Capital gains tax is only payable if net gains for the year exceed the annual exempt amount. It is important to note that the allowance is set against `net gains' – this is gains for the year, less losses for the year. It is not possible to set the annual exempt amount against gains only and carry forward any losses. However, brought forward losses do not need to be taken into account before applying the exempt amount.
The capital gains tax annual exempt amount for 2016/17 is £11,100. Trustees also have an exempt amount of half that available to individuals - £5,550 for 2016/17.

Example
In 2016/17, Peter realises gains of £20,000 and losses of £4,000. His net gains (gains less losses) are £16,000. The annual exempt amount of £11,100 is set against the net gains of £16,000, leaving gains of £4,900 liable to capital gains tax.

Use it or lose it
The annual exemption is available only for the tax year to which it relates. If it is not used, it is lost – it cannot be carried forward.

A question of timing
If you are planning a disposal that will give rise to a capital gain and your annual exempt amount for 2016/17 is unused, you may want to make the disposal before 6 April 2017 to utilise the 2016/17 annual exempt amount, leaving the 2017/18 annual exempt amount available for gains made after 5 April 2017 and before 6 April 2018.

Example
Jack has some shares to sell that would realise a gain of £20,000. He disposes of sufficient shares to trigger a gain of £11,100 before 6 April 2017 (so that the gain falls in the 2016/17 tax year). His annual exempt amount is available and this shelters the 2016/17 gain.

The remaining shares are sold after 5 April 2017 (in the 2017/18 tax year) and the resulting gain is set against the annual exempt amount for 2017/18. By carefully timing the disposal to make best use of the annual exempt amounts, the whole gain is tax-free.

Spouses and civil partners – further opportunities
Spouses and civil partners are able to transfer assets between them at a value which gives rise to neither a gain nor a loss. This opens up options for ensuring the annual exempt amount of either spouse or civil partner is not wasted.

Example
Kevin wishes to sell a painting that will realise a gain of £10,000 in order to buy a car for his daughter. He has already used up his annual exempt amount for 2016/17.

However, his wife Gill has not made any disposals and her full annual exempt amount remains available. By transferring the painting to Gill (on a no gain/no loss basis) before selling it to a third party, it is possible to realise the gain tax-free. The gain is sheltered by Gill's annual exempt amount.

Likewise, where both annual exempt amounts are available, it may be beneficial to transfer an asset to joint names prior to disposal.

Quote of the month…

"Walk with the dreamers, the believers, the courageous, the cheerful, the planners, the doers, the successful people with their heads in the clouds and their feet on the ground. Let their spirit ignite a fire within you to leave this world better than when you found it".

- Wilfred Peterson - American author contributing to This Week Magazine (1900 - 1995)

Reduced pensions annual allowance for high earners

The pensions annual allowance places a cap on tax relieved contributions, which can be made to a registered pension scheme for the pension input period. From 2016/17, the pension input period is aligned with the tax year.

The pensions annual allowance is set at £40,000 for 2016/17. However, some higher earners are only entitled to a reduced annual allowance as the allowance is tapered where income exceeds certain thresholds.

Taper thresholds
The taper is only applied if the individual has *both* threshold income in excess of £110,000 for 2016/17 and adjusted net income in excess of £150,000.

Threshold income
Threshold income is basically taxable income after pension contributions made either by deduction from salary or to a personal pension plan where basic rate relief is given at source. Where a salary sacrifice arrangement was entered into after 8 July 2015 under which salary is given up in exchange for employer pension contributions, the salary given up needs to be added back. Any salary sacrifice arrangements before 9 July 2015 can be ignored. If threshold income is less than £110,000 the reduction in the annual allowance does not apply.

Adjusted net income
Adjusted net income is basically taxable income before deducting pension contributions, plus any employer contributions. If adjusted net income is less than £150,000 the reduction in the annual allowance does not apply.

The taper
The taper only applies where both threshold income is more than £110,000 and adjusted net income is more than £150,000. Where this is the case, the annual allowance is reduced by £1 for every £2 by which adjusted net income exceeds £150,000, subject to a maximum reduction. Thus, an individual who has threshold income of more than £110,000 and adjusted net income of more than £210,000 will only be entitled to the minimum pensions annual allowance of £10,000 for 2016/17. The maximum taper of £30,000 applies.

Example
Hannah has a gross salary of £160,000 in 2016/17. She contributes £20,000 into a registered pension scheme. Her employer also makes a contribution of £20,000.
Her threshold income is £140,000 – her salary of £160,000 after her pension contribution of £20,000.
Her adjusted net income is her £180,000, being her salary before her pension contributions of £160,000 plus the pension contributions made by her employer of £20,000.

As her threshold income is above £110,000 and her adjusted net income is above £150,000, the taper applies.
Her annual allowance is reduced by 50% (£180,000 – £150,000) = £15,000.
Her annual allowance for 2016/17 is £25,000 (£40,000 - £15,000).

Jointly owned property – how rental income is taxed

The situation where a married couple or civil partners jointly own an investment property that they let out is a familiar one, but when it comes to the rental income, special rules apply.

Default position
Where a property is owned jointly by a husband and wife, the default position for income tax purposes is that each spouse is treated as receiving 50% of the income, regardless of who actually receives what. This may not be the most efficient allocation from a tax perspective.

Example
David and Charlotte are a married couple. They jointly own three properties as joint tenants, which they let out. The rental profit is £20,000 a year. David works in the City and is an additional rate taxpayer. Charlotte works part-time as a florist earning £12,000 a year and is a basic rate taxpayer.

The rental income is split 50:50 and each spouse is treated as receiving rental income of £10,000. Tax of £4,500 (£10,000 @ 45%) is payable on David's share of the rental income, whereas tax of £2,000 (£10,000 @ 20%) is payable on Charlotte's share of the income.
Tax-wise, this is not the best result. If Charlotte were to be taxed on the whole £20,000 of rental income, the tax payable would be £4,000 (£20,000 @ 20%), rather than the £6,500 currently payable by the couple – a saving of £2,500.

Unequal ownership
It is possible to override the default position if the property is not owned in equal shares and elect to be taxed in relation to the actual ownership and income split by completing form 17, *Declaration of beneficial interest in joint property and income.*

Jointly owned property – how rental income is taxed- Continued

The form is available to download from the Gov.uk website at www.gov.uk/government/publications/income-tax-declaration-of-beneficial-interests-in-joint-property-and-income-17. It is worth noting that from a capital gains tax perspective, assets can be transferred between spouses and civil partners on a no gain no loss basis if it is deemed worthwhile to alter the underlying ownership and consequently the actual income split.

A form 17 declaration can be made by married couples and civil partners who hold property jointly, who actually own the property in unequal shares and are entitled to the income arising in relation to shares, and who want to be taxed on that basis.

Example
Greg and Jack are in a civil partnership and own a flat as tenants in common, which they let out. The rental income is £16,000 a year. Greg owns a 75% share of the property and Jack owns the remaining 25% share. Greg is a basic rate taxpayer and Jack is an additional rate taxpayer.
Under the default position, each would be taxed on 50% of the rental income - £8,000 each. As a basic rate taxpayer, Greg would face a tax bill of £1,600 (£8,000 @ 20%) and Jack would face a tax bill of £3,200 (£8,000 @ 40%) – a combined bill of £4,800.

In this instance, it would be beneficial for Greg and Jack to be taxed on an actual basis and to make a form 17 declaration. Taking this route would mean that Greg would be taxed on £12,000 of the rental income (75% of £16,000), on which he would pay tax of £2,400 (£12,000 @ 20%), and Jack would be taxed on the remaining £4,000, on which he would pay tax of £1,600 (£4,000 @ 40%). Their combined tax bill would fall to £4,000, a saving of £800.

Beware, however, it will not always be better to be taxed by reference to actual ownership – sometimes the default 50:50 split will give a better result.

Example
Frank and his wife Julie own a property as tenants in common. The property is let out and generates rental income of £10,000 a year. Frank owns 80% of the property and Julie the remaining 20%.

Frank is a higher rate taxpayer while Julie does not work and has no other income. Under the default position their combined tax bill is £2,000 – Frank will pay tax at 40% on his 50% share of the income (£5,000), whereas Julie's share of the rental income will be covered by her personal allowance. By contrast, electing to tax the income by reference to their actual shares would increase the tax bill to £3,200 as Frank would then pay tax at 40% on £8,000 (80%) of the rental income.

Savings income – do you need to claim back tax?

From 6 April 2016 onwards, bank and building society interest has been paid gross without the deduction of tax. However, previously basic rate tax was deducted at source unless you were a non-taxpayer who had registered to receive your interest gross. If you had savings income in 2015/16, your taxable income was low, and if you hadn't registered to receive your I ncome gross, you may be due a repayment.

Tax-free limits
For 2015/16, the personal allowance was set at £10,600. To the extent that taxable non-savings income did not exceed the savings rate limit of £5,000, savings rate income was taxed at 0%. This meant that an individual could potentially receive up to £15,600 of savings income tax-free if they had no other income.

Case study 1
June is 74. In 2015/16, she receives a pension of £8,000 and bank and building society interest of £6,000 (gross) from which tax of £1,200 has been deducted.
Her total income for the year is £14,000.
Her pension of £8,000 is fully covered by her personal allowance of £10,600, leaving £2,600 of her personal allowance available to set against her savings income of £6,000.
The remaining £3,400 of her savings income is taxed at the savings starting rate of 0%. She has no taxable non savings income, so the full £5,000 nil rate savings rate band is available to her.
Therefore, no tax is due on June's saving income of £6,000 and she is entitled to a repayment of the tax of £1,200 deducted at source.

Case study 2
Margaret is also 74. She receives a pension of £12,000 and building society interest of £6000 on which tax of £1,200 has been deducted.

Her personal allowance of £10,600 is set against her pension, leaving her with £1,400 of taxable pension income. The savings starting rate band of £5,000 is reduced by the amount of her taxable non-savings income, reducing the amount of savings income eligible for the zero rate to £3,600.

The first £3,600 of her savings income is tax-free. The remaining £2,400 is taxed at 20% - giving rise to a tax bill of £480. However, as £1,200 has been deducted at source, Margaret is entitled to a repayment of £720.

Savings income – do you need to claim back tax? - Continued

Claiming the repayment
The 2015/16 self-assessment tax return should have been filed by 31 January 2017. Where a tax return has been completed, the repayment can be claimed via the self-assessment system.

Where there is no requirement to file a tax return, a repayment of tax on savings income can be claimed on form R40.

Savings allowance from 6 April 2016
In most cases, the need to claim a repayment of tax deducted from savings income will disappear from 6 April 2016. From that date, bank and building society interest is paid gross and basic rate and higher rate taxpayers are allowed a savings allowance allowing them to receive savings income tax-free up to the level of the allowance, regardless of whether they have taxable non-savings income. The allowance is set at £1,000 for basic rate taxpayers and £500 for higher rate taxpayers for both 2016/17 and 2017/18. The savings rate limit and starting rate for savings remain, respectively, at 0% and at £5,000.

Flexible and short term business finance solutions with a difference

Catalyst Finance; one of the UK's leading specialists of short term funding for SMEs; has developed its products and services to ensure delivery of simple, flexible and transparent finance.

They provide short term funding between 3 and 12 months across a variety of finance options including:

- Business Loans
- Asset Secured Loans – purchase order/confirmed order finance
- Revolving cash flow loans
- Selective Invoice Finance

An experienced and knowledgeable sales team will deliver tailor-made cash flow solutions to fit the requirements of the business. They visit every single prospect, so that the very best funding solution is achieved.

Their charges and fees are transparent and fair. There are no set up, exit or early repayment fees and they charge a pre agreed, fixed daily rate. Their fees only apply for the time that the funds are in use.

Catalyst can also provide additional finance, alongside banks and other lenders. They complement rather than compete against other lenders.

If there's a short term finance need then Catalyst Finance can help. They have supported a wide variety of businesses of all shapes and sizes to satisfy their working capital requirements.

To find out more, please visit their website to see some of the clients they have helped:-
https://www.catalyst-finance.com/client-stories

As an alternative, contact David Arthur (Head of Commercial Development) on 07870 613204 or email darthur@catalyst-finance.com

Don't Be Frightened of the Poor Performer: Tips for dealing with him/her

Have you ever employed somebody you wish you hadn't? Unfortunately, we all have at some point. It is a fact of life or employment. Yet, often managers are reluctant to deal with issues around poor performance. Why is that?

I run a short exercise on the "Managing Sensitive Staff Issues" course I run, asking managers to identify the reasons why they don't deal with staff issues until they become more serious. Invariably, they highlight items such as lack of confidence, lack of skill, lack of clarity of procedures, little experience, not sure if it serious enough to take action and others of a similar nature. What is always striking is that 80-90% of the reasons are to do with them as managers, not the individual who is performing poorly.

Poor performance can be the result of a number of factors but it always raises the two fundamental considerations: Can they do the job and Will they do the job? The first is about ability, the second about motivation.

Can they do they job?
Inability to perform to the standard required can be for due to factors which can be resolved with appropriate action, for example, lack of training, clarity of communication of requirements. However, if the causes are more fundamental, for example change in organisation, processes or technology, and an individual is unable to adapt or cope with the different situation, then it falls within a company's Capability Procedure.

These cases should be dealt with sensitively and supportively as they often involve the individual leaving the organisation.

Will they do they job?
Dealing with this situation is completely different. The reason for poor performance is lack of motivation, commitment or interest or all three. It can well demonstrate itself in intermitted 'sickies'. The individual is well capable of performing the job to the required standard but chooses not to. This situation handled through the company's Disciplinary Procedure.

Managers tips for dealing with poor performance
1. Be clear on your standards and expectations of performance and communicate them to staff, ensuring they understand
2. If poor performance emerges during the probationary period, consider early termination employment, subject, of course, to consideration of any discrimination implications. Also, review the recruitment decision to identify why you may have recruited the wrong person
3. Keep clear records of performance levels and feedback discussions
4. If performance issues emerge, investigate thoroughly and discuss with individual to obtain their view and explanation
5. Decide if it is capability or motivational issue
6. Give a defined opportunity to improve
7. Ensure you identify and comply with the correct company procedures for the situation (see next article).

Our thanks to Jim Gilhooley of MorlanGil Human Resources Limited at Timbers House, The Timbers, Fareham, Hampshire, PO15 5NB for providing us with this article.

Jim will be pleased to deal with your queries.

Jim.gilhooley@morlangilhr.co.uk
01329 519919

Compass welcomes new client - Enable Me

Compass Accountants is delighted to welcome its newest client, Enable Me- a disability awareness charity based in Littlehampton.

Enable Me is unique in that it is a 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.

Most recently, Enable Me has been working with businesses in the hospitality sector, helping them to improve their customer service and is currently working with Coutts Bank, helping them to further promote inclusivity in the workplace.

Compass and Enable Me already have a good relationship, following Compass' efforts to help the charity raise funds in various ways, including the donations generated at the 2016 Compass Quiz Night.

Chris Jay, Executive Chairman of the charity said, “Compass has been an advocate and supporter of Enable Me's work for some time now- but it wasn't just its generosity and understanding of disability awareness that has gained our custom.

They are also recognised for their expertise in the charity sector and for their experience of working with high profile non-profit organisations. We are delighted to be working with them and look forward to a long future together!”

Stuart Lawrance, Director of Compass said, “We are very pleased to welcome Enable Me as a client. Staff at Compass have already shown great support for the organisation's cause -now it will be a great pleasure for us to now offer our comprehensive range of services to support the charity in meeting all its financial and compliance needs.”

Compass will be organising/sponsoring a golfing event to raise funds for Enable Me.

Compass to sponsor the Enable Me Golf Day in Littlehampton

Compass Accountants is proud to announce that it will be the main sponsor of the ‘Enable Me Charity Golf Day’ – an annual event that helps the Littlehampton charity to raise funds.

The Golf Day will take place on Friday 28th April 2017, and will include a set lunch and refreshments, with various golfing competitions including ‘nearest to the pin’ and ‘longest drive’.
The day will take place at the Littlehampton Golf Club (dress codes apply), and will begin with brunch at 10.30am- with the last tee off at around 13.00.

The cost for entry is £45 per player which includes a set lunch (£20 -for Littlehampton Golf Club members).
Enable Me is a unique not-for-profit organisation based in Littlehampton working to raise disability awareness, providing services that include awareness workshops and training programmes for businesses, schools and sports professionals.

Compass' Business Development Specialist- Jeff Walton, will be representing Compass and competing on the day. Jeff said, “It's a great pleasure to sponsor this event, and as a keen golfer, it will also be a pleasure to participate! Enable Me's cause is one that Compass proudly supports, so we are honoured to be contributing through sponsorship. It will also be a great occasion to meet new people, and to see friends and colleagues at the event!”

For further details, entry forms and booking tee times, contact Sue at Enable Me : office@enablemeproject.org.uk
Tel: 01903 734400

Client Focus – Liza Byatt - Pups and Mutts

This month we catch up with our client Liza Byatt, who explains how she broke out of office confinement to launch her own dog walking and grooming business- 'Pups and Mutts'

Pups and Mutts

For someone that is adventurous, enjoys the outdoors, loves walking and adores dogs- making the decision to launch a dog walking business was an easy one. Liza Byatt launched Pups and Mutts in November 2016 and since then, she has developed a strong clientele of dog owners in the Lee on Solent, Stubbington, Titchfield and Locks Heath area.

"I had been working in an office job in the telecommunications industry for about two years- but being confined to an office is not where I pictured myself." Explains Liza. "So, I decided to combine all the things I love to develop a dog walking and grooming business, which I must say, is a decision I'm glad I made."

Liza now offers local dog owners a menu of flexible services, including garden visits -where she drops into customer's homes to let their dog out- group walks where she walks a number of dogs together- and private walks where she takes single dogs out for a stroll.

Looking forward, Liza has plans to develop her business by extending her offering and creating a studio to provide a purpose-built space for dog grooming. She says, "I'm currently studying for a City and Guilds (Level 3) in dog grooming and so I attend college once a week. The course focuses on the principles and practices of modern dog grooming techniques. It also covers health and safety, dog behaviour, handling techniques, animal welfare and much more."

"Dog owners want to be assured that you have a good knowledge of all aspects of looking after their pets- and that they will be safely supervised and well looked after," explains Liza. "In this business you have to be well prepared and have all the right equipment."

"Eventually I'll be adding dog day care and boarding- for clients looking for regular support and care. I'll offer a service for those looking for dog care when they are at work. I'll also cater for those going on holiday." Looking to the future, Liza aims to buy a house in the next three years, and will convert an area of her home into a grooming studio for clients.

"In the next few months, I aim to get a van- and before I do, Compass will be the first people I approach for advice." she adds. "Since launching the business, using Compass has been one of the best moves I have made. My brother recommended Compass- as he uses them, and my Dad originally recommended them to my brother- so you could say the firm is in the family! My brother and dad had only good things to say about them, so I knew they'd be right for me."

"I wasn't going to get an accountant at first- but when I spoke to them they made everything clear and easy. It was an immediate weight off my shoulders, knowing everything was in safe hands. They were they were so helpful- so kind and friendly. Now, I just don't worry anymore!

From an outsiders point of view its daunting becoming self-employed or a sole trader. Even my self-employed friends couldn't answer some of the questions I had - but now I know -my accountant always has the answer!

Liza offers group dog walking services for £10.00, single dog walking services for £15.00 and garden visits for £7- she also has various loyalty schemes and offers. If you would like to enquire about her services call her on 07387070481 or message her on Facebook: https://www.facebook.com/pupsandmutts/

Tax Diary
March/April 2017

1 March 2017	Due date for Corporation Tax for years ended 31 May 2016.
19 March 2017	PAYE and NIC deductions due for month ended 5 March 2017. (If you pay your tax electronically the due date is 22 March 2017)
19 March 2017	Filing deadline for the CIS300 monthly return for the month ended 5 March 2017.
19 March 2017	Due date for CIS tax deducted for the month ended 5 March 2017.
1 April 2017	Due date for Corporation Tax for years ended 30 June 2016.
19 April 2017	PAYE and NIC deductions due for month ended 5 April 2017. (If you pay your tax electronically the due date is 22 April 2017)
19 April 2017	Filing deadline for the CIS300 monthly return for the month ended 5 April 2017.
19 April 2017	Due date for CIS tax deducted for the month 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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