Compass Accountants

Newsletter - May/June 16

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

TaxAngles - For proactive tax planning

In this month's edition…

Directors' loans

It can be very convenient for the director of a personal or family company to borrow money from the company, and if structured correctly, a company loan can be a cheap and tax efficient source of finance. However, there are tax pitfalls to look out for.

Pitfall 1 – corporation tax on outstanding loan ('section 455 tax')

A tax charge arises if the loan balance is still outstanding nine months and one day after the end of the accounting period in which the loan was made. This 'trigger date' is the date that corporation tax for the period is due.

The tax charge arises if the company is 'close', which is the case for personal companies and most family companies. The amount of the charge depends on the date on which the loan was taken out. For loans taken out before 6 April 2016, the rate is 25%; for loans taken on or after that date, the rate is 32.5% (the same as the higher dividend tax rate).

Any section 455 tax is repaid once the loan has been cleared. The repayment is not due until nine months and one day after the end of the tax period in which the loan is repaid.

The section 455 tax can be avoided by clearing the loan, for example by crediting a salary, bonus or dividend payment to the loan, or by introducing funds to clear the loan.

Dividends, salary and bonus payments are taxed in the usual way.

Tip

Clearing the loan will not always be the best option. If the section 455 tax is less than the tax payable on the dividend or salary paid to clear it, it may be preferable to pay the section 455 tax and clear the loan at a later date, either when the director has sufficient funds to pay back the loan or when payments of salary or dividends made to clear the loan will be charged at a lower marginal rate.

Trap

Anti-avoidance provisions may bite if the loan is cleared just before the trigger date and funds re-borrowed just after.

Pitfall 2 – 'benefits in kind charge'

A second tax charge may arise under the benefits in kind legislation where a director has a company loan. The charge will arise if the interest paid on the loan is less than the interest that would be payable at the 'official rate' set by HMRC. For 2015/16 and 2016/17 the official rate has been set at 3%.

However, there is an exemption for small loans and as long as the outstanding loan balance does not exceed £10,000 at any point during the tax year, there is no benefits in kind charge. But if the loan balance is more than £10,000 during the tax year, even if only for one day, a tax charge arises based on the difference between the interest that would be payable at the official rate and the interest actually paid.

Where a tax charge arises, Class 1A NICs are payable by the company.

Need to know

It is possible for a director to borrow up to £10,000 from their personal or family company for up to 21 months tax free. However, beware of the tax charges that may arise in connection with directors' loans.

Quote of the month…

"Meetings are by definition a concession to a deficient organisation. For one either meets or one works. One cannot do both at the same time" - Peter Drucker, Management Guru.

Dividend taxation for 2016/17

The new dividend tax regime came into effect from 6 April 2016. Gone is the dividend tax credit and in its place a new dividend allowance for all taxpayers. There are also changes to the dividend tax rates.

The abolition of the tax credit simplifies taxation of dividends in that it is no longer necessary to perform a grossing up calculation to arrive at the amount of taxable dividend income – the amount received is now the taxable amount. However, there is no tax credit to set against the tax liability either.

Dividend allowance

All taxpayers, regardless of their marginal rate of tax, receive a dividend allowance of £5,000. This is not an 'allowance' in the true sense of the word, but rather a nil rate band which applies to the first £5,000 of taxable dividend income.
Dividends which fall within this band are taxed at a zero rate, so are received tax-free.

However, the £5,000 'allowance' uses up part of the taxpayer's basic or higher rate band, as appropriate, as dividends falling within this band are counted as taxable income (albeit taxable at a zero rate).

Dividend rates

Once the dividend allowance (and any available personal allowances) have been used up, dividends are treated as the top slice of income and are taxed at the appropriate dividend rate. The dividend rate is 7.5% to the extent that the dividends fall within the basic rate band (the ordinary dividend rate), 32.5% to the extent that they fall within the higher rate band (the dividend upper rate) and 38.1% to the extent that they fall within the additional rate band (the dividend additional rate).

Example

Penny has a salary of £20,000 and receives a dividend of £25,000 from her family company in 2016/17.

The salary is treated as the first slice of her income and uses up her personal allowance of £11,000 and the first £9,000 of her basic rate band. She pays tax of £1,800 on her salary (£9,000 @ 20%).

This leaves £23,000 of her basic rate band available (£32,000 - £9,000).

The first £5,000 of her dividend income is covered by her dividend allowance and taxed at the zero rate.

This leaves £18,000 of her basic rate band remaining (£23,000 - £5,000).

The next £18,000 of her dividends are taxed at the ordinary dividend rate of 7.5%, giving rise to a liability of £1,350,
The remaining £2,000 of dividend income is taxed at the upper dividend rate of 32.5%, giving rise to a tax liability of £650.

The tax payable on Penny's dividends is therefore £2,000 ((£5,000 @ 0%) + (£18,000 @ 7.5%) + (£2,000 @ 32.5%)).

Need to know

All taxpayers receive the dividend allowance regardless of the rate at which they pay tax. This should be taken into account when formulating a profit extraction strategy for your family company.

Personal tax changes for 2016/17

The start of a new tax year generally brings with it a number of changes and 2016/17 is no exception. So what has changed for this year?

The first point to note is that the personal allowance has increased from £10,600 to £11,000. The allowance is now the same for all taxpayers, regardless of the age of the taxpayer – the age-related allowances are no more. The personal allowance continues to be reduced where the taxpayer has income in excess of £100,000. The allowance is reduced by £1 for every £2 by which income exceeds £100,000. This means that taxpayers with income of £122,000 and above for 2016/17 will not receive a personal allowance.

Married couples and civil partners where neither party is a higher or additional rate taxpayer are able to transfer 10% of their personal allowance to their spouse or civil partner. For 2016/17 the transferable marriage allowance is £1,100. This is useful where one partner does not have sufficient income to utilise his or her allowance. Claiming the marriage allowance can save the couple up to £220 in tax in 2016/17.

The income tax rates remain unchanged, at 20%, 40% and 45%. However, the rate at which the higher rate bites is increased to £43,000 as a result of an increase in the basic rate band to £32,000 and the increase in the personal allowance to £11,000. Also new for 2016/17 is the personal savings allowance. This is only available to basic and higher rate taxpayers – there is no allowance for additional rate taxpayers. The allowance is set at £1,000 for basic rate taxpayers and at £500 for higher rate taxpayers, allowing them to receive, respectively, £1000/£500 of savings income tax-free. Banks and building societies now pay interest gross, removing the need to register for gross payment or reclaim back tax deducted at source. The allowance is available in addition to the 0% savings rate that applies to the first £5,000 of savings income where an individual's taxable non-savings income does not exceed £5,000.

The new dividend tax regime also came into effect from 6 April 2016. Everyone, regardless of their marginal rate of tax receives a dividend allowance of £5,000, effectively allowing the first £5,000 of dividend income to be received tax-free. Thereafter, dividends are taxed at the new dividend rates – 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

Need to know
Make sure you are aware of the changes to the rates and allowances for 2016/17 and what they mean for your personal tax situation.

PETS are for everyone, not just Prime Ministers

On the back of the Panama papers came the rather unexciting news that the Prime Minister had received a gift from his mother that could 'potentially avoid inheritance tax'. However, there is nothing untoward about this. The ability to make a gift potentially free of inheritance tax is enshrined in the legislation and is available to everyone. The trick is for the donor to survive seven years after making the gift.

Give it away early

Gifts made during the donor's lifetime, which are not otherwise exempt from inheritance tax are known as potentially exempt transfers (PETS). To be totally exempt, the donor must survive seven years.

Gifts to spouses and civil partners are fully exempt. Exemptions also apply to gifts made out of income, gifts covered by the annual allowance, and gifts made on the occasion of marriage.

Taper relief

If the donor dies within seven years of making a gift the potential for the gift to be exempt is not realised. However, an element of relief is given if the donor made the gift at least three years before death. To the extent that that gift does not fall within the nil rate band, the rate of IHT payable on the gift may be reduced.

Taper relief reduces the amount of tax payable on the gift where the donor dies more than three years and less than seven years after making the gift, as shown in the table below.

Time between date of gift and death of donor	Taper relief - percentage reduction applied to tax due
0 to 3 years	0%
3 to 4 years	20%
4 to 5 years	40%
5 to 6 years	60%
6 to 7 years	80%
& years plus	100%

Example 1: Gift made more than seven years before death

Edward gives a rare painting worth £500,000 to his son 4 years and 7 months before he dies. He has made no other gifts. On his death, the gift is chargeable to the extent it exceeds the nil rate band of £325,000.

Before applying taper relief, the tax due is £70,000 ((£500,000 - £325,000) @ 40%). As Edward died between 4 and 5 years after making the gift, the tax is reduced by 40%. This is a tax reduction of £28,000 (£70,000 @ 40%).

Consequently, the tax payable on death on the gift is £42,000 (£70,000 - £28,000).

First claim on nil rate band

The most likely effect of a donor dying within seven years of making a gift is that the inheritance tax payable on the estate left at death is increased. Potentially exempt transfers have first claim on the nil rate band should they fall into charge where the donor dies less than seven years from the date of making the gift. This reduces the amount of the nil rate band available to set against the death estate.

Example 2: PET uses nil rate band

Marilyn dies leaving an estate of £300,000. She also made a gift six years before she died of £150,000 to her daughter. Although her estate on death is less than the nil rate band of £325,000, the lifetime gift uses up the first £150,000 of the nil rate band, leaving only £175,000 to set against her estate on death. On her death, £125,000 of her estate (£300,000 less remaining nil rate band of £175,000) is brought into charge. As a result, IHT of £50,000 (£125,000 @ 40%) is payable on her death.

Need to know – Lifetime gifts are only fully exempt if made more than seven years before death, but the tax is reduced if the donor survives at least three years after making the gift.

Give with care

Anti-avoidance rules apply to prevent you giving away assets and retaining the benefit of them.

New allowances for trading and property income

In his 2016 Budget speech, the Chancellor announced two new allowances would be introduced from April 2017 for money earned from 'the sharing economy'. One allowance will be for trading income and the other for property income.

Trading income allowance

A new allowance of £1,000 will be available for people who make money from selling goods or providing services. Under current rules, small amounts of trading income, for example from undertaking occasional jobs or selling goods on e-bay must be declared to HMRC and, to the extent that the income is not covered by the personal allowance, the income is taxable.

However, once the new allowance is introduced from April 2017, income from trading which is covered by the new allowance will not need to be declared to HMRC and can be enjoyed tax-free.

Where trading income exceeds £1,000, traders will have the option of working out their taxable profit in the usual way by deducting expenses from income, or instead they can choose to deduct the allowance (rather than actual expenses) from their gross income. This will be beneficial where expenses are less than £1,000 a year or where the trader wishes to avoid the hassle and expense of recording expenses.

Example 1

Holly is employed in an office, in respect of which she earns £15,000 a year. She also sells cupcakes locally, from which she makes £800 a year.

In 2016/17 she will need to declare the income from her cupcake business on the self-employed pages of her tax return and pay tax on the profit.

However, as a result of the introduction of the new trading allowance for 2017/18, she will no longer need to tell HMRC about her income as it is fully covered by the £1,000 allowance. She will no longer need to pay tax on the income.

Example 2

Beth has a small business selling knitted toys on e-bay. Her income is £3,000 a year and her expenses are £750. Although she will need to declare the income on the self-employed pages of her tax return for both 2016/17 and 2017/18, for 2016/17 her taxable profit will be £2,250 (£3,000 less expenses of £750). For 2017/18 she can instead choose to deduct the new allowance of £1,000 from her income rather than the actual expenses. This will give her a lower profit figure of £2,000, saving her time and tax

Property allowance

The second allowance to be introduced from April 2017 is in respect of income from property. It will also be set at £1,000 and will allow people to receive small amounts of property income tax free. This will mean that people who earn less than £1,000 from, say, renting out their driveway or offering storage in their loft, will no longer need to tell HMRC about this income or pay tax on it.

Where income is in excess of £1,000, taxpayers will have the option of computing their profit in the usual way (income from property less associated expenses) or by deducting the allowance from their gross income. As with the trading allowance, this will be beneficial if actual expenses are less than £1,000.

The new allowance does not affect the option of receiving income from letting a room in your house tax-free under the rent-a-room scheme.

Need to know: Where trading or property income is less than £1,000, it will no longer need to be declared to HMRC from 6 April 2016.

Register of people with significant control

From April 2016, rules are introduced which require companies to keep a register of people with significant control (PSC register). In addition, the details of people with significant control (PSCs) will have to be filed with Companies House from 30 June 2016.

A PSC is defined as an individual that:

- holds, directly or indirectly, more than 25% of the shares or voting rights in the company; or
- holds the right, directly or indirectly, to appoint or remove a majority of the board of directors of the company; or
- has the right to exercise, or actually exercises, significant influence or control over the company; or
- where a trust or firm would satisfy any of the above conditions, any individual that has the right to exercise, or actually exercises, significant influence or control over the activities of that trust or firm.

The details of the individuals which need to be entered on the PSC register include:

- name and address
- usual residential address, country of residence and nationality
- date of birth
- date when they became a PSC
- the nature of their control over the company.

Failure to comply with the requirements of the PSC regime could lead to the company or directors, or identified PSCs committing a criminal offence. The company and its directors could face a fine or imprisonment or both.

Further guidance can be found on the Companies House website or please contact us for more guidance in this area.

Simple online payments for Compass' clients

We are very pleased to announce that Compass clients can now conveniently make payments via our very own website. Our new WorldPay system, which has been incorporated into the Compass website, provides our clients with a fast, simple and straightforward way to pay.

Clients can be confident that their payment details are processed securely in line with PCI DSS compliance, allowing our clients to make quick, simple and secure transactions via our payment page.

To access the payment link, just go to the menu at the side of the Compass home page, and click 'Pay Online' then follow the simple instructions. All major credit and debit cards are accepted through the website.

The addition of the online payment system precedes the launch of the 'Compass Accountants App' which will enable our clients to have ground-breaking technology at their fingertips.

The Compass App will allow clients to manage their accounts from their mobile devices, accessing financial information, receiving messages, tips, utilising tools, and features such as tracking, storing and managing mileage, photo receipt management and calculators for -savings, mortgage, company cars, loans, Pay slips, VAT and more. The app will be compatible with mobile devices including smart phones and tablets.

Jim Merriott -CEO of APR Powder Coatings LTD

This month, we catch up with the owner of APR Powder Coatings, Jim Merriott who explains how expansion, relocation and developing the largest independent oven on the South coast, has helped his business to thrive…

APR Powder Coatings has been providing its customers with high quality powder coating services for over twenty years and in that time, it has firmly established itself as a leader in its industry. As specialists in powder coating, (a method of covering metal surfaces, widely perceived as a superior alternative to using paint), APR prides itself on its ability to offer high quality, durable and corrosion resistant finishes on various forms of metal surface.

Whilst the process of finishing metal surfaces with dry powder has been used in the UK since the mid 50's, it has become increasingly popular in recent years. Powder applications are most frequently used in the industrial and automotive industries, offering superior results in terms of both quality and cost.

There are cost advantages to powder coating when compared to solvent laden liquid coating. Powder coated parts are cured when they leave the oven, (as the powder is heated to fuse into a protective layer), unlike many wet coatings which have post cure ageing requirements. This means the total processing time is far shorter, therefore there is a faster turnaround time and reduced labour costs, allowing the client to receive their product in a ready to use state.

Based in Waterlooville, APR have developed a strong foothold in the industry, specifically with heavy goods vehicles and trailer manufacturers. The company boasts several well-known clients, such as Lewmar Marine, Lawrence David, Thomas Sanderson Blinds and many more.

Having very recently moved premises, it seems APR now has expansion, development and a significant increase in clientele on the horizon. The premises APR has now moved into now boasts a new, improved, larger building that provides enough space to increase the size of the oven APR were previously using.

"We have always used a large oven", explains Jim, "But this one will take the business to a whole new level. To my knowledge it is the largest independent oven on the South Coast. An oven of this capacity will enable us to not only increase the type of goods we are able to powder coat but also increase the speed we work at, as well as the amount of work we complete."

The next step in the organisation's expansion is increasing the number of employees to cope with the soar in its workload, which Jim claims the new building is absolutely ideal for.

"It has been quite a journey for us and Compass have been with us all of the way," explains Jim, "They know our business well, having first assisted us with the company launch. Of course, back then we were an entirely different type of organisation, but Compass have always assisted with new territories and aided our growth."

"They have helped us with everything especially in the last two years. Now, they visit us as regularly and are part of the company. They are great to have around to ask questions like *How do we get over this problem?* or *How do we approach this?* If I'm completely honest, I think of them more as friends now than as accountants, and I think that is quite an important thing in business."

Tax Diary
May/June 2016

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

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

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

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

31 May 2016 Ensure all employees have been given their P60 for the 2015-16 tax year.

1 June 2016 Due date for Corporation Tax for years ended 31 August 2015.

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

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

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

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.

Compass Accountants

Venture House,
The Tanneries, East Street, Titchfield
Hampshire
PO14 4AR

Gatcombe House
Copnor Road, Portsmouth
Hampshire
PO3 5EJ

Contact us:
TEL: 01329 844145 or 02393 233196
EMAIL: contact@compassaccountants.co.uk