Compass Accountants

Newsletter - May/June 17

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

TaxAngles - For proactive tax planning

In this month's edition…

Cash basis threshold increased

The cash basis is a simpler way for smaller businesses to work out their taxable profit. Under the cash basis, profit is calculated by reference to cash in and cash out, rather than by reference to income earned in the period and expenditure incurred, as is the case under the traditional accruals basis.

Prior to 6 April 2017, the cash basis was only open to sole traders and unincorporated businesses with a turnover below the VAT registration threshold (which was set at £83,000 from 1 April 2016 and increased to £85,000 from 1 April 2017).

However, in preparation for the introduction of Making Tax Digital, under which businesses will be required to maintain records digitally and to provide digital updates to HMRC quarterly, the cash basis threshold has been increased. Availability of the cash basis is also extended to unincorporated landlords from 2017/18 onwards.

New look cash basis

From 6 April 2017, the entry threshold for the cash basis is Increased to £150,000. Once using the cash basis, businesses can remain in it until their turnover exceeds the exit threshold, set at double the entry threshold. Thus, the exit threshold is £300,000 from 6 April 2017.

From 6 April 2017, the cash basis also becomes the default accounting basis for unincorporated businesses with rental income of £150,000 or less. Such businesses can still use the accrual basis if they prefer – but will need to elect to do so.

Capital expenditure

Simplified rules for treating capital expenditure under the cash basis are also introduced from 6 April 2017. Instead of the general prohibition on capital expenditure that applied prior to that date, the new rules only prohibit the deduction of certain items, namely:

- capital items incurred in connection with the acquisition or disposal of a business or part of a business;
- any asset not acquired or created for use on a continuing basis in the trade;
- a car;
- land;
- certain intangible assets, including education or training; and
- financial assets.

Capital expenditure that does not fall into the above categories can be deducted as for revenue expenditure.

Is it for me?

The cash basis will suit many small businesses, but it is not for all businesses. This may be the case if the business has high stock levels or has losses that would be beneficial to offset against other businesses. On the plus side, tax is only payable on money that has actually been received by the year end.

Quote of the month…

"When you make a choice, you change the future" - Deepak Chopra - alternative medicine champion.

Company cars in 2017/18

Company cars are a popular benefit and are often something of a status symbol. But, they have also been an easy target for the taxman. Where a company car is available for private use, the employee is taxed on the associated benefit that this provides. The amount that is charged to tax – the cash equivalent value – depends on the list price of the car and the appropriate percentage.

The list price is essentially the manufacturer's price when new. This remains the reference point by which the tax charge is calculated – it does not matter how much was actually paid for the car, whether it was bought second-hand or that cars tend to depreciate rapidly.

The appropriate percentage – the percentage of the list price charged to tax – depends on the car's CO2 emissions.

Adjustments are made when calculating the cash equivalent to reflect the periods when the car was unavailable, capital contributions and contributions to private use.

Appropriate percentage

Linking the appropriate percentage to the CO2 emissions has the effect of rewarding those who choose lower emission cars. However, it also provides the Government with an easy mechanism for increasing the tax charge year on year by making the emissions criteria stricter. The appropriate percentage is set for a year for the relevant threshold (95g/km). For 2017/18, the appropriate percentage for a car with CO2 emissions of 95g/km is 18% - For 2017/18, it was 16%.

Thereafter, the appropriate percentage is increased by 1% for every 5g/km by which the CO2 emissions exceed the relevant threshold, to a maximum of 37%. Diesel cars attract a 3% supplement on top of what the relevant percentage is; however, the over percentage is capped at 37%.

Increasing the appropriate percentage each year means that a company car driver will pay more tax in 2017/18 than in 2016/17 on the same car, despite the fact it is a year older, has higher mileage and will have generally depreciated.

Example

Max has a company car. It has CO2 emissions of 120g/km. The car cost £30,000 when new. Max is a higher rate taxpayer.
In 2016/17, the appropriate percentage was 21% and in 2017/18 it was 23%. This means that the cash equivalent value of the benefit has increased from £6,300 for 2016/17 to £6,900 for 2017/18 and the associated tax bill has increased from £2,520 to £2,760 – an increase of £240.

Fuel

A separate charge applies where fuel is provided for private motoring in a company car. The amount taxed is the appropriate percentage as determined for the purposes of the tax charge on the car multiplied by the multiplier for the year, set at £22,600 for 2017/18. In the above example, if Max were to receive fuel for private journeys, he would be taxed on a benefit of £5,198 – a further tax bill of £2,079.20.

Unless private mileage is very high, employer-provided fuel is rarely an efficient benefit.

Practical tip – Choosing a cheaper low emission company car will minimise the associated tax charge

Employment allowance – can you benefit?

The National Insurance employment allowance can reduce an employer's National Insurance bill by up to £3,000 – but not all businesses can benefit.

Nature of the allowance

Where available, the allowance is set against the employer's secondary Class 1 National Insurance bill. The allowance, set at £3,000, reduces the National Insurance payable by the employer until it is used up or, if sooner, the tax year ends. Qualifying employers whose secondary National Insurance liability for a tax year is £3,000 or less will not pay any employer's National Insurance. Employers whose secondary National Insurance liability is more than £3,000 will benefit in a £3,000 reduction in their National Insurance bill.

The way the allowance works means that employers will pay less or even nothing at the start of the tax year and the full month's liability once the allowance has been used up.

Example
For the first three months of 2017/18, PQR Ltd's employer Class 1 National Insurance liability is as follows:

- Month 1: £750
- Month 2: £1,260
- Month 3: £1,180
- Month 4: £1,375

Employment allowance – can you benefit? - Continued

The company claims the employment allowance, which is utilised as follows.

Month	Employer's NIC liability for month	Available employment allowance	Allowance used this month	Employers NIC payable to HMRC	Allowance carried forward
1	£750	£3,000	£750	Nil	£2,250
2	£1,260	£2,250	£1,260	Nil	£990
3	£1,180	£990	£990	£190	Nil
4	£1,375	Nil	Nil	£1,375	Nil

As a result of the availability of the allowance, no employer's National Insurance is payable to NIC in months 1 and 2 and the liability for those months is fully sheltered by the allowance. In month 3, the remaining allowance of £990 is set against the liability of £1,180 for that month and the balance of £190 is paid over to HMRC. As the allowance has now been fully utilised, from month 4 onwards, the full liability for the month must be paid over to HMRC.

Not for everyone

Not all businesses are able to benefit from the employment allowance. Since 6 April 2016, it has not been available to one-man companies where the sole employee is also the director. However, in a family company scenario, having a set up where there is more than one paid employee or the only employee is not also a director will preserve the allowance. This can be beneficial in formulating a profit extraction strategy and setting an optimal salary level.

The employment allowance is also not available where someone is employed for personal, household, or domestic work, such as a nanny or a gardener (although the allowance is available where the personal employee is a care or support worker). Service companies operating under IR35 where the only income is the earnings of the intermediary and public bodies and those doing more than 50 per cent of their work in the public sector are similarly denied the allowance.

Claim it

The allowance must be claimed through the employer's real time information software package. To the extent that the allowance is not used up during the tax year, it is lost – any unused balance cannot be carried forward to the following year.

NICs and the self-employed

Following the Spring Budget, the National Insurance treatment of the self-employed hit the headlines after it was announced the main rate of Class 4 contributions would be increased to 10% from April 2018 and to 11% from April 2019. The measure, billed as the `white van man tax', was short-lived. Amid criticism that the Government had gone back on their election promise not to increase National Insurance, they performed a U-turn a week later – giving a further promise that the Class 4 rates would remain unchanged during this Parliament. Then Theresa May announced a General Election…

So where are we now with NICs and the self-employed?

Current rules

The self-employed currently pay two Classes of National Insurance contributions – Class 2 and Class 4.

Class 2 is a flat weekly rate payable where profits exceed the small profits threshold (set at £6,025 for 2017/18) for each week of self-employment in the tax year. For 2017/18, the Class 2 rate is £2.85 per week. It is Class 2 contributions that currently earn the self-employed rights to the state pension and certain contributory benefits.

Class 4 contributions are essentially a further tax on profits. They currently confer no benefit entitlement. For 2017/18, Class 4 contributions are payable at the main rate of 9% on profits between the lower profits limit of £8,174 and the upper profits limit of £45,000, and at the additional rate of 2% on profits above £45,000.

Both Class 2 and Class 4 contributions are collected via the self-assessment system.

New rules from April 2018

National Insurance contributions for the self-employed are to be reformed from April 2018.

Class 2 National Insurance contributions are being abolished from 6 April 2018 and Class 4 reformed to take on the role of providing benefit entitlement for the self-employed.

The new-look Class 4 structure that will apply from that date will closely resemble Class 1 contributions as applied on an annual basis (as for, say, company directors).

A new small profits limit will be introduced and aligned with the lower earnings limit for Class 1 purposes (£113 per week for 2017/18). A zero rate will apply to profits which fall between the small profits limit and the lower profits limit which, like the Class 1 equivalent, will earn state pension and benefit rights for self-employed earners whose profits fall in this band.

As is currently the case, contributions will be payable at the main rate between the lower and upper profits limits, and at the additional rate on profits above the upper profits limit.

As at the time of writing, the plan appears to be for the main rate to remain at 9%. However, as we enter a new Parliament, the Government may be free of the shackles imposed by previous election promises and the statutory NIC lock and decide after all to raise the main rate from April 2018. It is a case of watch this space.

Property development – are you investing or trading?

For many, buying a property, doing it up and selling it for a profit is an attractive proposition. However, it will not always be clearcut when the line between simply investing in property and trading is crossed. From a tax perspective, the distinction is important as the tax consequences are not the same.

Which tax?

Assuming the goal of selling the property for more than it cost to buy and do up is realised, for tax purposes, it is important to determine whether that surplus is a chargeable gain liable to capital gains tax or a trading profit liable to income tax.

A gain in an investment property is taxed as chargeable gain (and conversely, if the property market fell and the property was sold at a loss, the loss would be an allowable loss). To the extent that it would remain available, any gains in excess of the annual exempt amount would be charged at the residential property rates of capital gains tax, which for 2017/18 are 18% where the taxpayer is a basic rate taxpayer and 28% where the taxpayer is a higher or additional rate taxpayer.

By contrast, a property developer who is trading and running an unincorporated business would be taxed at his or her marginal rate of tax once the personal allowance has been utilised – 20% for a basic rate taxpayer, 40% for a higher rate taxpayer and 45% for an additional rate taxpayer.

Investment vs trading – a question of intention

The starting point for determining whether the taxpayer is investing in property or trading is the original intention when buying the property.

Scenario 1
Ben buys a run-down property as a long-term investment with a view to doing it up and then renting it out. Following a change in his personal circumstances, he sells the property shortly after completing the renovations, realising a gain of £30,000. His intention was to hold the property as an investment and this has not changed as a result of the sale. The gain is, therefore, chargeable to capital gains tax.

Scenario 2
Bill also buys a run-down property, but he sees it as an opportunity to make a quick profit. He renovates the property and sells it once the renovations are complete. He makes a profit of £30,000 which he invests in another property that he also does up and sells, this time realising a profit of £50,000.

Unlike Ben, Bill is trading. His intention is to buy and sell property to make a profit. The profit is charged to income tax as trading income. Determining intention will not always be clear cut. HMRC will consider factors such as how long the taxpayer owned the property, whether the sale and purchase is a one-off or one of series of transactions, whether the property has been rented out, whether it was acquired for personal enjoyment and whether there is a connection with the existing trade. This will provide a picture that determines whether the taxpayer is investing in or trading in property.

To ensure that the unwary do not get caught by unintended tax consequences, the question of whether the taxpayer is making an investment or trading should be determined at the outset.

Government quietly scraps tax breaks on 'micro-entrepreneurs' just days after they kick in: Now you WILL be taxed on selling crafts online and renting out a room.

- **Two tax breaks for those using the sharing economy are sneakily scrapped**
- **Those using sites such as Airbnb, Etsy and eBay would have benefited**
- **First announced in the 2016 budget, each tax relief was meant to be £1,000**
- **The Government strips back the Finance Bill so it will pass before the election**

Millions of people who use sites such as Airbnb, eBay and Etsy will no longer be able to benefit from lower tax bills after the Government quietly scrapped two tax breaks last week.

The new rules had meant that anyone earning less than £1,000 through renting out a room or their drive, or selling goods online, would not have to pay tax.

The two tax breaks, one for property and one for trading, were **first announced in the 2016 budget.**

But, having just been introduced at the beginning of last month, the allowances have now been scrapped after being removed from the Finance Bill, which was passed at the end of last week.

Once again, anyone selling items online on a regular basis will have to tell the taxman or fill out a tax return every year, or else risk being fined (see the box below).

These digital tax breaks were designed for helping those working in the sharing economy.

Called 'micro-entrepreneurs', these include people who rent out their homes or spare rooms through websites such as Airbnb and those selling homemade crafts on websites like Etsy or eBay.

The measures were supposed to be introduced on 6 April this year but both tax breaks were taken out of the Finance Bill, along with a host of other plans.

The move has not been widely publicised and there was no official announcement from the Treasury to say the tax breaks had been removed.

But a spokesperson said: ‘We can’t speculate on what will happen in the future, though I can confirm that the measures have been dropped from the bill.'

The tax breaks were split into income and property. The income relief was for those selling online, such as those with a marketplace on Etsy selling their own crafts, while the property relief was for those renting out parts of their home - such as a parking space or garage.

These were separate to the current rent-a-room tax relief scheme, which lets people earn up to £7,500 a year tax free when letting out furnished accommodation, which remains unaffected.

When it was first announced, the then Chancellor, George Osborne, said the existing tax laws were ‘daunting and complex’ for those trying to make money online.

Jane Ellison, financial secretary to the Treasury, said when the changes to the bill were made: 'The bill is progressing on the basis of consensus and therefore, at the request of the Opposition, we are not proceeding with a number of clauses.

‘However, there has been no policy change. These provisions will make a significant contribution to the public finances, and the Government will legislate for the remaining provisions at the earliest opportunity, at the start of the new Parliament.’

Other measures were also dropped last week.

The bill has been stripped right back in order to be passed before the snap general election on June 8th. The Government argued this was the only way to pass the bill before parliament adjourns ahead of June’s election.

- **Cutting dividend allowance**
  Plans announced just last month to cut the tax-free dividend allowance from £5,000 to £2,000 and the money purchase annual allowance, from £10,000 to just £4,000, were also dropped.

- **Proposed ban on pension cold calling.**

- A **digital tax hit** which was set to target small firms and the self-employed was also removed from the bill.

Continued.

The sharing economy is booming
There are very few tax reliefs available to those using it apart from the £7,500 rent-a-room relief for those renting furnished parts of their home out.

However, if you're selling items online through somewhere like Etsy or eBay, you need to **make sure you're aware of the tax implications.**

For those selling items on a regular basis – not just a one off item you want to get rid of – you are technically trading online and therefore you will need to tell HM Revenue & Customs.

You can do this by filing a tax return and you will need to pay tax on any profit you earn - if you're unsure of how to do this you can contact HMRC for guidance.

A word of warning – if you think you can continue trading and HMRC won't take action – **last year it launched a crackdown on these types of sellers**.

Last year around 870,000 people who were making money online failed to submit a tax return and now the taxman is allowed to force websites, such as Airbnb and Etsy, to hand over details of how much sellers are making.

A new law was passed last September in the Finance Act which allows HMRC to demand bank account details, email addresses, user-names and other information to investigate where people are making money in the sharing economy but not paying tax.

HMRC - New scam doing the rounds!

HMRC have confirmed they have received a number of calls regarding a new scam that is currently doing the rounds.

The taxpayers are being called and told they have a lawsuit against them and are asked to give personal details.

HMRC have confirmed that if any action was to be taken against a taxpayer this would be informed by letter and not by phone and that no-one should give any details out..

Protect Yourself From The Cost Of An HMRC Investigation

At Compass Accountants we can provide you with our TaxAngles Premier 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.

With our TaxAngles Service we can provide an all-embracing package 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 TaxAngles Premier 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.

Save the Date! - Compass Quiz Night 2017!!

Compass Accountants will be holding their 2nd Annual Charity Quiz Evening on Thursday 5th October 2017 at Portsmouth Football Club.

This promises to be another great evening with lots of prizes to be won and money to be raised for charity.

If you are interested in attending and/or donating a prize for the evening please contact Natalie Farley on 01329 844 145 or email on natalief@compassaccountants.co.uk

Client Focus - Ocean Blue Inventories

This month, we catch up with property inventory specialists- Larry Ward and Pixie McClay-Ward- who recently launched their own business, Ocean Blue Inventories …

Despite launching only one year ago, Ocean Blue Inventories has already established a strong reputation as an inventory specialist in the property sector, providing a service across Portsmouth, Southsea, Southampton and many other areas in Hampshire.

Working with landlords, tenants and letting agencies, Ocean Blue Inventories is a Fareham based company, owned and run by husband and wife, Larry Ward and Pixie McClay-Ward. With a lot of experience in the private tenant field (London) and knowledge of the local area, Larry and Pixie identified a gap in the market for a professional and personal inventory service to deliver reports to the highest standards possible.

“The software we use is extremely versatile, from houses to boats to mobile homes.” Larry says. “Before a property is let, tenants typically have to provide a huge deposit, but, since April 2007, landlords must secure this deposit into a Government approved tenant deposit scheme. Prior to a tenant moving in, an inventory of the property is carried out, to cover that deposit and to protect both tenants and the landlords- which is where we come in.”

Ocean Blue Inventories assesses every inch of the entire property providing its clients with thorough written descriptions, backed up with a library of digital images, all of which are date and timed stamped, demonstrating every detail of the condition of the property. This happens before the tenant moves in, and during the ‘check in’ process with the tenant. There are also interim checks and check out reports made throughout each tenant’s duration in the property.

“We deal with several letting agencies in Southsea and Portsmouth, and they have been impressed with the unique way that we report. They also go into a sufficient amount of detail meaning there are no ambiguities regarding the condition of the property. Some of our reports are around 80 pages long. We provide these reports electronically - and this has proven to be especially popular with our clients- who are pleased with the option of becoming ‘paperless’. We are also excited with the fact that our PDF reports now include an interactive link! This will allow you to go to any area, any room, any sub group of that room quickly and efficiently.”
Larry and Pixie are making plans to expand, and are currently rebuilding their website, reassessing their brand, developing a new marketing strategy, exploring with social media- and hope to one day be in the position of expanding their team.

“We are considering looking at North Hampshire, Andover and Basingstoke - and establishing ourselves in these areas,” adds Pixie. “We have hit the ground running, in terms of developing our brand- but we are – like most businesses- always looking for more! HMO’s, houses in multiple occupation) residential letting's, holiday lets, yachts, if you are renting we advise getting an inventory and a check out. It’s your property- so safe guard it! We worked closely with Christies Estate and Letting Agent in Southsea last year, and are very proud and pleased to be doing the same this year.”

As Ocean Blue Inventories was Larry and Pixie’s first business, they made contact with Compass regarding the financial advice they required to launch the business:

“We initially went to see Jeff back when Ocean Blue Inventories was just an idea.” says Larry. “We wanted to speak with someone who could good give us advice. Which is exactly what Jeff did. He also introduced us to Sam. our personal client relationship manager. Compass have been so helpful, taking the responsibility of company tax and personal tax away from us. And providing us with a guiding hand when it is needed.”

“Sam breaks everything down simply – and doesn’t use baffling jargon. She is down to earth and so easy to speak to. Even the receptionists at Compass are friendly and welcoming. If you’ve ever been to an accountant before- you’ll know- it can be quite daunting visiting them - but not with Compass. I’d recommend them to anyone.”

Following the company’s rebrand- Ocean Blue Inventories will be offering a huge discount to their followers on Twitter: @Obinventories

If you are interested in Ocean Blue Inventories services- you can call Larry or Pixie on : 01329 560560 or
Email: info@oceanblueinventories.co.uk

Ocean Blue Inventories

Tax Diary
May/June 2017

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