COMPASS ACCOUNTANTS

TAX ANGLES FOR PROACTIVE PLANNING

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In this month's edition…

Tax-free allowances for trading and property income

New allowances were introduced from the 2017/18 tax year for trading and property income. The availability of these allowances means that those with low levels of trading or property income may not need to report this to HMRC.

Trading allowance

The trading allowance is £1,000 for both the 2017/18 and 2018/19 tax years. If you have trading income of less than £1,000, you no longer need to report it to HMRC. This may be the case where a person sells items on eBay, or has a hobby-type business, such as cake making, DIY or crafts which generates only a small income. Where the trading income is more than £1,000, the trader has the choice of either deducting the £1,000 allowance from income to arrive at the taxable profit, or computing profits in the usual way by deducting actual expenses. If actual expenses are less than £1,000, deducting the allowance will be beneficial, whereas if actual expenses are more than £1,000, deducting the actual expenses will give a lower profit figure, and thus a lower tax bill.

If income is less than £1,000, but the individual makes a loss, they can elect for the allowance not to apply, calculate the loss in the usual way and include the details on their tax return. This will mean that benefit of the loss is not wasted. However, where the loss is small, the hassle of returning it on the tax return may be judged not to be worthwhile.

Property allowance

The property allowance is also set at £1,000 and works in much the same way as the trading allowance. It will benefit those who have a small amount of rental income, for example, from renting out their drive for parking during nearby sporting events.

However, the property allowance cannot be used as well as rent-a- room relief where a householder lets out one or more rooms in his or her home.

Rent-a-room relief, which enables the householder to enjoy rental income of up to £7,500 tax-free, trumps the new allowance, but the new allowance can be claimed where rent-a-room relief is not available, i.e. where the let is not of a furnished room in the landlord's home.

Example 1

Juliet enjoys baking and makes cupcakes for parties. In 2017/18 she earns £653 from the sale of her cupcakes, more than covering her expenses.
As her trading income is less than £1,000, she does not need to report it to HMRC.

Example 2

Robert collects sporting memorabilia. He sells items he does not want to keep on eBay. In 2017/18, his income from the sale of sporting memorabilia was £1,826. His expenses were £791.

As his expenses are less than £1,000, it is beneficial for him to claim the trading allowance. His taxable profit is, therefore, £826 (£1,826 less the trading allowance of £1,000).

Quote of the month…

"The pessimist sees difficulty in every opportunity. The optimist sees opportunity in every difficulty."

Winston Churchill

Mileage allowances – what is tax-free?

Employees are often required to undertake business journeys by car, be it their own car or a company car, and may receive mileage allowance payments from their employer. Up to certain limits, mileage payments can be made tax-free. The amount that can be paid tax-free depends on whether the car is the employee's own car or a company car.

Employee's own car

Where an employee uses his or her own car for work, under the approved mileage allowance payments (AMAP) scheme, payments can be made tax-free up to the approved amount. The rates have not changed since 2011, and for cars (and vans) are set at 45p per mile for the first 10,000 business miles in the tax year and 25p per mile for any subsequent business miles. A rate of 24p per mile applies to motorcycles and a rate of 20p per mile applies to bicycles.

Example

Jack frequently uses his car for work and in the 2017/18 tax year, he undertakes 13,420 business miles.
Under the AMAP scheme, the approved amount is £5,355 (10,000 miles @ 45p per mile) + (3,420 miles @ 25p per mile). Amounts up to the approved amount can be paid tax-free and do not need to be reported to HMRC.

Where the mileage allowance paid is more than the approved amount, the excess over the approved amount is taxable and must be reported to HMRC on form P11D in section E.

Example

The facts are as in example 1 above. Jack is paid a mileage allowance by his employer of 50p per mile.
The amount paid of £6,710 (13,420 miles @ 50p per mile) is more than the approved amount of £5,355, therefore, the excess over the approved amount (£1,355) is taxable and must be re- ported on Jack's P11D (unless his employer has opted to payroll the benefit).

Where the mileage allowance paid is less than the approved amount, the employee can claim tax relief for the shortfall, either in his or her tax return or on form P87.

For NIC, the 45p per mile rate is used for all business miles in the tax year, not just the first 10,000 miles.

Beware salary sacrifice

The value of the tax exemption is lost if the mileage payments are made under a salary sacrifice or other optional remuneration arrangement, and instead, the employee is taxed on the amount of salary foregone where this is higher.

Company vehicles

Where an employee has a company car, the AMAP scheme does not apply. However, mileage payments can still be made tax-free but at the lower advisory fuel rates. These are updated quarterly and the rate which can be paid tax-free depends on the engine size of the car and fuel type. The rates are available on the Gov.uk website at

www.gov.uk/government/publications/advisory-fuel-rate.

As with the AMAP rates, where the amount paid is in excess of the advisory rate, the excess is taxable.

Paying voluntary Class 3 contributions

Voluntary National Insurance contributions can be paid to plug gaps in your contributions record.

To receive the full single-tier pension (which is payable to individuals who reach state pension age on or after 6 April 2016), an individual needs 35 qualifying years. Where a person does not have the requisite 35 qualifying years, they will receive a reduced state pension, as long as they have a minimum of 10 qualifying years. A person who has less than 10 qualifying years will not receive a single-tier state pension.

Where a person does not have the full 35 years, they may wish to pay voluntary contributions to boost their pension entitlement. People with some qualifying years, but less than 10, may want to make voluntary contributions to bring their contribution record up to the minimum of 10 years needed for a reduced pension.

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Nature of Class 3 contributions

Class 3 National Insurance contributions are voluntary contributions. For 2018/19, Class 3 contributions are payable at a weekly rate of £14.65.

Checking your National Insurance record

Before making voluntary contributions, it is sensible to check your National Insurance record. This can be done online on the Gov.uk website at www.gov.uk/check-national-insurance-record. This will enable you to see what you have paid up to the start of the current tax year (so for 2017/18 and earlier years), any National Insurance credits you have received, and gaps in your record (i.e. years that are not qualifying years). Where there are gaps, you may want to consider paying voluntary contributions to plug the gap – however, if you already have 35 qualifying years or will do by the time you reach state pension age, it will not be worthwhile.

National Insurance credits

National Insurance credits are available in certain situations where people are not working and, therefore, not paying National Insurance credit. Credits are available to those looking for work, who are ill, sick or disabled, caring for someone or registered for child benefit for a child under the age of 12. Where credits are received for a tax year, it will not be possible (or necessary) to make voluntary contributions for that year.

Time limit

Class 3 contributions must normally be paid within six years of the end of the tax year to which they relate. A later deadline applies in certain circumstances.

Class 2 rather than Class 3

A person whose income from self-employment is below the small profits threshold (£6,250 for 2018/19 and £6,025 for 2017/18) is eligible but not required to pay Class 2 contributions. At £2.95 per week for 2018/19, Class 2 contributions are significantly cheaper than Class 3 contributions. Where it is possible to pay Class 2 voluntarily, this is a much cheaper option than paying Class 3 – saving £608.40 for 2018/19.

However, Class 2 contributions are to be abolished from 6 April 2019, so 2018/19 is the last year for which this option is available.

Loss of tax relief for EMI options

The Enterprise Management Investment (EMI) is a share option scheme for smaller companies, which is designed to help them attract and retain high calibre employees by enabling them to benefit from tax-advantaged share option schemes. However, state aid for EMI incentives lapsed on 6 April 2018 – and with it the associated tax advantages. So, where does that leave EMI options?

Nature of the EMI scheme

Companies with assets of £30 million or less are able to offer Enterprise Management Incentives (EMIs). Under the scheme, it is possible to grant share options of up to £250,000 over a three-year period. The tax advantages associated with the EMI scheme mean that (normally) there is no tax or National Insurance to pay, as long as the amount paid for the shares (the exercise price) is at least equal to the market value of the shares at the time that the share option was granted.

Where shares are granted at a discount on the market value at the time of the grant, tax and National Insurance is payable on the discount element. However, if the market value of the shares has increased between the date on which the option was granted and the date on which the option is exercised, there is no tax to pay on the increase in value. If the shares are sold, there is a capital gains tax liability if the proceeds are more than the market value of the shares on the date on which the option was granted.

Availability of the tax advantages is conditional on the associated conditions being met.

The tax advantages available under the EMI scheme are only available to companies that are carrying out activities that fall within the definition of qualifying activities. As such, the granting of relief constitutes state aid and requires EU approval. Approval lapsed on 6 April 2018. The UK has applied for renewal of the approval, but at the time of writing, this had not been granted.

The effect of this is that any EMI options granted on or after 6 April 2018 and prior to any renewal of the approval will not benefit from the tax advantages, even if all the associated conditions are met. However, the loss of approval will not affect qualifying EMI options granted before 6 April 2018.

Any company that is thinking of granting EMI options should consider waiting until state aid approval has been renewed, to ensure the associated tax reliefs are available.

Telling HMRC about benefits in kind

Where taxable benefits and expenses have been provided to employees in 2017/18, these need to be notified to HMRC on form P11D by 6 July 2018, unless the benefit has been payrolled. Form P11D(b) – the Class 1A National Insurance return and employer's declaration that all required P11Ds have been filed – must reach HMRC by the same date.

Form P11D is used to report taxable benefits and expenses provided to employees. The form is used, regardless of the amount that the employee earns – since 6 April 2016, the same rules apply to all employees and directors.

A P11D needs to be completed for each employee and director to whom taxable expenses and benefits have been provided in the 2017/18 tax year. Payrolled expenses should not be reported on the P11D, nor should any expenses and benefits included within a PAYE Settlement Agreement or those covered by an exemption.

Where benefits have been payrolled, they do not need to be included on the P11D. However, they must be taken into account in the Class 1A National Insurance calculation on form P11D(b).

Exempt benefits

Exempt benefits do not need to be included on the P11D – where an exemption applies, there is no tax to pay. This might be a specific exemption, such as that for mobile phones, or the general exemption for paid and reimbursed expenses, which replaced the old dispensation regime. This exemption covers business expenses, such a travel, business entertainment, business phone calls and suchlike, which would be tax-deductible if met by the employee.

What value to report

Unless the benefit has been made available via an optional remuneration arrangement (such as a salary sacrifice or flexible benefits arrangement or if a cash alternative has been offered instead), the value of the benefit is its cash equivalent value.

New valuation rules apply from 6 April 2017 (subject to transitional rules for arrangements in place on 5 April 2017) where benefits are provided under optional remuneration arrangements, unless the benefit is one of a limited range of benefits (employer supported childcare and childcare vouchers, pension contributions and pension advice, cycles and equipment provided under a cycle to work scheme or low emissions (75g/km or less).

Where the valuation rules apply, the value of the benefit is the salary foregone or cash alternative offered where this is higher than the normal cash equivalent value.

Filing the returns

There are various submission options available and HMRC offer a number of online options, including their online end of year expenses and benefits service and PAYE Online for Employers. You can also use your commercial payroll software. Paper forms may also be submitted.

Deadlines

Returns must be submitted by 6 July 2018. Employees must be given a copy of their return by the same date. Class 1A National Insurance paid by 22 July 2018 where payment is made electronically, and by 19 July otherwise.

Partner note: *Income Tax (Pay As You Earn) Regulations* 2003 (SI 2003/2682), reg. 85.

Client Focus- Lindsey Hood

This month, we catch up with Lindsey Hood - a Compass Accountants client and professional life and executive coach- who specialises in helping individuals with imposter syndrome …

It may come as a surprise to some, but many people's careers are held back by the overwhelming feeling that they shouldn't be where they are. These feelings of inadequacy, (often experienced by those in high-achieving professional positions), are also known as having '*Imposter Syndrome'*.

Those that experience imposter syndrome usually feel that they have landed in an unearned position, purely by luck or chance, despite the fact that most are intelligent and successful professionals. As a syndrome that was first identified over 40 years ago, the term is becoming more widely recognised, having been coined by clinical psychologists Pauline R. Clance and Suzanne A. Imes.

Lindsey Hood is a Life and Executive Coach, (and client of Compass Accountants), and one of the very few people in the UK that has developed a specialism in working with imposter syndrome.

Lindsey now uses her skills to help clients all over the UK and overseas, to learn to accept and work with these feelings.

"Initially, I use a a mixture of psychometric tools and coaching to deepen self-awareness." explains Lindsey. "This gradually allows clients to appreciate their own unique attributes, giving them the ability to harness them and to excel in their chosen careers. It's largely about understanding yourself, who you are, where you get your energies and how you can learn to use these to develop strategies that allow and enable you to be reach beyond your potential. The ability to know and identify what gives us energy means you can utilise your own uniqueness to be able to implement simple strategies, to show up in all situations in a way that is authentic to your true self." adds Lindsey.

Based in Southampton, many of Lindsey's clients are from the Hampshire area- but she has also worked with various organisations in London. However, her clients are not limited to the UK, as many of her sessions take place via Skype or Zoom- allowing her services to reach as far as the US.

"At the moment there are many companies trying to reduce the gender pay gap, and as a result, more and more women are moving into senior positions. This has meant that I am working with various organisations looking to offer support to female staff members who may need assistance with that transition. Of course, not everyone does- but often certain individuals require some support to help them get up to speed. Assisting those returning from maternity leave is another area I am supporting many businesses with."

Having been qualified as a life coach for almost 6 years, it was in 2017 that Lindsey made the jump to develop the services she has been offering into a full-time business. "I made the decision that I wanted to be the UK's '*Go-To'* life coach for imposter syndrome and it wasn't long after I made that decision, that I met Stuart from Compass, who explained that it was the perfect time to get an accountant on board."

"Because I offer a service -and I am the product- I hadn't really properly considered running things as *'a business'* as such, but Compass gave me a great framework to work with and sat down and talked to me about making the right plans. They gave me the grounding and explained both what I need to think about- and what I *don't* need to- which was really useful. They simplified everything."

"It was great to speak with an accountancy firm that was totally honest and transparent- and they couldn't be nicer! There was no pressure to come on board – but I came away and thought- I fully trust them- and I feel confident that they'll do a great job for me."

If you are interested in the life and executive coach services Lindsey offers or you would like to find out more about imposter syndrome – visit her website www.lindseyhood.net

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.

www.compassaccountants.co.uk