# COMPASS ACCOUNTANTS

TAX ANGLES FOR PROACTIVE PLANNING

Newsletter - May 2019

*In this month's edition…*



## PAYE settlement agreements

A PAYE Settlement Agreement (PSA) enables the employer to pay the tax and National Insurance instead of the employee on those benefits and expenses included within the PSA. This can be useful to preserve the beneficial nature of the benefit, for example in respect of a Christmas or other function falling outside the associated exemption, or where the effort involved in reporting the benefit on individual employees' P11Ds is disproportionate to the amount involved.

**What can a PSA be used for?**
A PSA cannot be used for all benefits – only for those which fall into one of the following three categories:

- minor benefits and expenses – such as telephone bills, incentive awards outside the scope of the exemption and similar
- irregular items – such a relocation expenses or the occasional use of a company flat
- impracticable expenses and benefits in respect of which it is difficult to place a value on or to divide up between individual employees – such as staff entertainment or shared cars

A PSA cannot be used for cash payments or for high-value items such as company cars.

Items falling within the scope of the trivial benefits exemption can simply be ignored for tax and National Insurance purposes – they should not need to be included in a PSA.

**Setting up and checking a PSA**
To set up a new PSA, the employer should write to HMRC setting out the benefits and expenses to be included within the PSA. Once HMRC have agreed the PSA, they will send two draft copies of form P626. Both copies should be signed and returned to HMRC. HMRC will authorise the PSA and send a form back – this will form the PSA.

A new PSA must be agreed by 6 July following the end of the tax year for which it is to have effect.
A PSA is an enduring agreement. Once it has been set up it remains in place until revoked by either the employer or HMRC. Employers should check that an existing PSAs remain valid.

**Impact of a PSA**
Where a PSA is in place, the employee does not pay tax on any benefits included within the PSA – instead the employer meets the liability on the employee's behalf. Also, there is no need to report benefits included in the PSA on the employee's P11D, or to payroll them.

Instead the employer pays tax on the items included within the PSA grossed up at the employees' marginal rates of tax. For Scottish tax-payers, the relevant Scottish rate of income tax should be used in the calculation.

As far as National Insurance is concerned, Class 1B contributions, which are employer-only contributions are payable at a rate of 13.8% in place of the Class 1 or Class 1A liability that would otherwise arise. Class 1B contributions are also due on the tax paid under the PSA (as the tax paid on behalf of employees is also a taxable benefit).

**Settling the PSA**
Form PSA1 should be used to calculate the amount of tax and Class 1B National Insurance due under the PSA. This should be sent to HMRC after the end of the tax year. The tax and Class 1B National Insurance must be paid by 22 October after the end of the tax year where payment is made electronically or by the earlier date of 19 October where payment is made by cheque.

HM Revenue & Customs

# Are you paying the minimum wage?

The National Living Wage (NLW) and National Minimum Wage (NMW) increased from 1 April 2019. From that date, the NLW, payable to workers aged 25 and over, is set at £8.21 per hour. Workers under the age of 25 and over school leaving age must be paid the NMW appropriate for their age. From 1 April 2019, this is £7.70 per hour for workers aged 21 to 24, £6.15 per hour for workers aged 18 to 20 and £4.35 for workers above school leaving age and under 18. A separate rate of £3.90 per hour applies to apprentices under 19 and to apprentices over 19 and in the first year of their apprenticeship.

**Who is entitled to the minimum wage?**
Workers over the school leaving age are entitled to the minimum wage. This is the last Friday in June of the school year in which they turn 16. Once a worker reaches the age of 25, they are entitled to the NLW.
Payment of the minimum wage is not limited to full-time employees. Workers for NLW and NMW purposes also include:

- part-time workers
- casual labourers
- agency workers
- workers and homeworkers paid by the number of items that they make
- apprentices
- trainees
- workers on probation
- disabled workers
- agricultural workers
- foreign workers
- seafarers
- offshore workers

However, company directors without a contract of service fall outside the minimum wage legislation, as do the self-employed, volunteers and voluntary workers, workers on a government employment programme or pre-apprenticeship scheme or certain EU programmes, members of the armed services, family members living in the employer's home, non-family members living in the employer's home who are not charged for meals or accommodation and treated as a family member (for example, an au pair), higher and further education students on placements of up to one year, people on a Jobcentre Plus Work trial for six weeks, share fishermen and those working and living in a religious community.

It is important to identify which workers fall within the scope of the minimum wage legislation and pay them accordingly.

**What is included in the minimum wage?**
Certain items are not taken into account in determining whether a worker has been paid at or above the relevant minimum wage for his or her age. These include payments for the employer's own use or benefit, items that the worker has bought for the job and which have not been reimbursed, such as tools, a uniform and suchlike, tips and service charges and any extra pay for working unsocial hours on a shift.

However, income tax and National Insurance are taken into account in the minimum wage calculation as are advances of wages or loans, repayment of overpaid wages, items provided for the employee which are not needed for the job, such as meal and penalty charges for a worker's misconduct.

**Accommodation**
Accommodation provided by the employer is taken into account when calculating the minimum wage. The legislation provides for an accommodation offset, set at £52.85 per week/£7.55 per day from 1 April 2019.
If the employer charges more than this for accommodation, the excess is taken off the worker's pay which counts for minimum wage purposes. Where there is no charge for the accommodation, the offset rate is added to the worker's pay.

**Failure to pay minimum wage**
It is a criminal offence not to pay the National Minimum Wage or National Living Wage to which a worker is entitled. Employers who pay below the minimum wage should pay arrears immediately. Penalties may also be charged.

# Family companies – optimal salary for 2019/20

For personal and family companies it can be beneficial to extract some profits in the form of a salary. Where the individual does not have the 35 qualifying years necessary to qualify for the full single-tier state pension, paying a salary which is equal to or above the lower earnings limit for National Insurance purposes will ensure that the year is a qualifying year.

New tax rates and allowances came into effect from 6 April 2019, applying for the 2019/20 tax year. These have an impact on the optimal salary calculation for family and personal companies. As in previous years, the optimal salary level will depend on whether or not the National Insurance employment allowance is available.

It should be remembered that directors have an annual earnings period for National Insurance purposes.

**Employment allowance unavailable**
Companies in which the sole employee is also a director are not able to benefit from the employment allowance. This means that most personal companies are not eligible for the allowance. Where the allowance is not available or has been utilised elsewhere, the optimal salary for 2019/20 is equal to the primary and secondary threshold set at £8,632 (equivalent to £719 per month and £166 per week).

At this level, assuming that the director's personal allowance (set at £12,500) is available, there is no tax or employer's or employee's National Insurance to pay. However, as the salary is above the lower earnings limit of £6,136 (£512 per month, £118 per week), it will provide a qualifying year for state pension and contributory benefit purposes.

The salary is deductible in computing the company's taxable profits for corporation tax purposes, saving corporation tax of 19%.

**Employment allowance is available**
It is beneficial to pay a salary equal to the personal allowance (assuming that this is not used elsewhere) where the employment allowance (set at £3,000 for 2019/20) is available to shelter the employer's National Insurance that would otherwise arise to the extent that the salary exceeds £8,632.

Although employee's National Insurance is payable to the extent that the salary exceeds the primary threshold of £8,632, this is more than offset by the corporation tax deduction on the higher salary.

For 2019/20, a salary equal to the personal allowance of £12,500 exceeds the primary threshold by £3,868. Therefore, employee's National Insurance of £464.16 (£3,868 @ 12%) is payable on a salary of £12,500. However, as salary payments are deductible for corporation tax purposes, the additional salary of £3,868 saves corporation tax of £734.92 (£3,868 @ 19%). This exceeds the employee's National Insurance payable by £270.46.

So, if the employment allowance is available, paying a salary equal to the personal allowance of £12,500 allows more profits to be retained (to the tune of £270.46) than paying a salary equal to the primary threshold of £8,632.

If the director has a higher personal allowance, for example, where he or she receives the marriage allowance, the optimal salary is one equal to that higher personal allowance.

**Director is under 21**
Where the director is under the age of 21, the optimal salary is one equal to the personal allowance of £12,500 (assuming that this is not used elsewhere) regardless of whether the employment allowance is available. No employer National Insurance is payable on the earnings of employees or directors under the age of 21 until their earnings exceeds the upper secondary threshold for under 21's set at £50,000 for 2019/20. Employee contributions are, however, payable as normal

**Any benefit in paying a salary above the personal allowance?**
Once the personal allowance is reached it is not worthwhile paying a higher salary as further salary payments will be taxed and the combined tax and National Insurance hit will outweigh the corporation tax savings.

# Reporting expenses and benefits for 2018/19

Where employees were provided with taxable benefits and expenses in 2018/19, these must be notified to HMRC. The reporting requirements depend on whether the benefits were payrolled or not.

**Benefits not payrolled**
Taxable benefits that were not payrolled in 2018/19 must be reported to HMRC on form P11D. There is no need to include benefits covered by an exemption (although take care where provision is made via an optional remuneration arrangement (OpRA)) or those included within a PAYE Settlement Agreement. Paid and reimbursed expenses can be ignored to the extent that they would be deductible if the employee met cost, as these fall within the statutory exemption for paid and reimbursed expenses.

The value that must be reported on the P11D depends on whether the benefit is provided via an OpRA, such as a salary sacrifice scheme. Where the benefit is provided other than via an OpRA, the taxable amount is the cash equivalent value. Where specific rules apply to determine the cash equivalent value for a particular benefit, such as those applying to company cars, employment-related loans, living accommodation, etc., those rules should be used. Where there is no specific rule, the general rule – cost to the employer less any amount made good by the employee – applies.

Where provision is made via an OpRA, and the benefit is not one to which the alternative valuation rules do not apply, namely:

- payments into pension schemes
- employer provided pension advice
- childcare vouchers, workplace nurseries and directly contracted employer-provided childcare
- bicycles and cycling safety equipment, including cycle to work schemes
- low emission cars (Co2 emissions 75g/km or less)

the taxable amount is the relevant amount. This is the higher of the cash equivalent under the usual rules and the salary foregone or cash alternative offered. The taxable amount is the cash equivalent value where the benefit falls outside the alternative valuation rules.

**Payrolled benefits**
Payrolled benefits should not be included on the P11D but must be taken into account in calculating the Class 1A National Insurance liability on form P11D(b).

**P11D(b)**
Form P11D(b) must be filed regardless of whether benefits are payrolled or notified to HMRC on form P11D. The P11D(b) is the Class 1A return, as well as the employer's declaration that all required P11Ds have been submitted.

**Paper or online**
There are various ways in which forms P11D and P11D(b) can be filed. The simplest is to use HMRC's online end of year expenses and benefits service or HMRC's PAYE Online for employers service. Forms can also be filed using commercial software packages.

There is no requirement to file P11Ds and P11D(b)s online – paper forms can be filed if preferred.

**Deadline**
Regardless of the submission methods, forms P11D and P11D(b) for 2018/19 must reach HMRC by 6 July 2019. Employees must be given a copy of their P11D (or details of the information contained therein) by the same date. Details of payrolled benefits must be notified to employees by the earlier date of 31 May 2019.

Class 1A National Insurance must be paid by 22 July where paid electronically, or by 19 July where payment is made by cheque.

## Voluntary National Insurance contributions – should you pay?

The payment of National Insurance contributions provides the mechanism by which an individual builds up their entitlement to the state pension and certain contributory benefits. Different classes of contribution provide different benefit entitlements.

Employed earners pay Class 1 contributions where their earnings exceed the lower earnings limit – set at £118 per week (£512 per month, £6,136 per year) for 2019/20. Self-employed earners pay Class 2 and Class 4 contributions, but it is the payment of Class 2 contributions only which provide pension and benefit entitlement. A self-employed earner is liable to pay Class 2 contributions where their earnings from self-employment exceed the small profits threshold, set at £6,365 for 2019/20. Where profits from self-employment are below the small profits threshold, the self-employed earner is not liable to pay Class 2 contributions but is entitled to do so voluntarily. For 2019/20, Class 2 contributions are payable at the rate of £3 per week.

**Qualifying year**
A year is a qualifying year is contributions have been paid for all 52 weeks of that year. If there are some weeks for which contributions have not been paid, the year is not a qualifying year. However, contributions can be paid voluntarily to make up the shortfall and turn a non-qualifying year into a qualifying year.

**How many qualifying years are needed?**
An individual needs 35 qualifying years to receive the full single-tier state pension payable to those reaching state pension age on or after 6 April 2016. To receive a reduced single tier state pension, at least 10 qualifying years are needed.

**Should voluntary contributions be paid?**
Voluntary contributions may be paid to make up the shortfall for a year where Class 1 or Class 2 contributions were not paid for the full 52 weeks or for a year for which there was no liability to either Class 1 or Class 2.

Before paying voluntary contributions, it is necessary to ascertain whether the payment of such contributions would be worthwhile. The starting point is to check your state pension. This can be done online at www.gov.uk/check-state-pension.

If you already have 35 qualifying years (or will do by the time state pension age is reached), there is no benefit in paying voluntary contributions. However, if you have less than 35 years, it may be worthwhile to increase your state pension. Likewise, if by state pension age you will have some qualifying years but less than 10, it may be worthwhile paying sufficient voluntary contributions to secure a minimum pension.

**Class 3 contributions**
Class 3 contributions are voluntary contributions and can be paid to boost the state pension.

For 2019/20, Class 3 contributions cost £15 per week. Thus, at these rates, to increase the state pension by 1/35th by paying voluntary Class 3 contributions for a year will cost £780. For 2019/20, the single-tier state pension is £168.60 per week, so at 2019/20 rates, each extra qualifying year (up to 35) is worth £4.82 per week.

Class 3 contributions must normally be paid within six years from the end of the tax year to which they relate – although extended time limits in certain cases.

**Voluntary Class 2**
Where a person is entitled but not liable to pay Class 2 contributions, paying Class 2 contributions voluntary is a cheaper option, at £3 per week for 2019/20 rather than £15 per week.

# Client Focus - The Kennet and Avon Canal Trust


This month, we catch up with a Compass client- the Treasurer and Trustee of the Kennet and Avon Canal Trust- Chris Bolt.

The Kennet and Avon Canal Trust is a volunteer led charity, originally formed back in 1951 when it was then named 'The Kennet and Avon Canal Association'. Back then, the goal of the organisation was to restore the derelict canal.

It was in 1962 that the organisation became a charitable trust, and in 1990, after a long campaign to raise funds for the restoration, the canal was fully restored and reopened by Queen Elizabeth II. Now, the canal is an 87-mile-long heritage and leisure park which runs between Reading and Bristol passing through Newbury, Hungerford, Pewsey, Devizes, Trowbridge, Bradford on Avon, Bath and Bristol.

The Trust's main responsibility, however, is running the Kennet and Avon Canal centre and museum in Devizes, and the Grade I listed 'Crofton Beam Engines' site near Marlborough, which boasts the world's oldest working steam beam engines still working in its original location and performing its original task. Crofton was built over 200 years ago to supply water to the highest point of the canal and is now considered one of the most important surviving remains of the Industrial Revolution in England. The Trust also has a trading subsidiary which operates trip boats on the canal and licenses tea rooms and cafés in Trust properties along the canal.

"Our museum celebrates the history of the canal" explains Chris Bolt, Treasurer and Trustee of the Kennet and Avon Canal Trust. "Its artefacts are always being updated as we often receive new items or photos related to the canal donated by members of the surrounding communities or other museums."

"We have just put in a grant application for the restoration of an Archimedean screw, currently located at the Crofton site, which was used for draining the canal for works in the 19th century. It was recovered from the canal in Hungerford and will now be professionally conserved."

The Crofton site is set in picturesque grounds overlooking Wilton Water reservoir and the canal, and on specific weekends, in the summer both engines are run, pumping water into the canal with steam being supplied by a coal-fired, Lancashire boiler, just as it was over 100 years ago.

"Seeing the beam engines in operation at Crofton is really quite something, and can attract large crowds when they are in operation" says Chris, "We have as many as 20,000 people visiting a year and hope to develop that further alongside many other special events we have planned for the summer."

"Last year, at Crofton we received a National Lottery Heritage Fund grant to preserve the building and develop the activities, and this year we plan to add a family trail and other activities to encourage schools to visit. We also have plans to add activity panels to explain the workings of the engines when they are not in operation and a new play area for children."

**Working with Compass…**

"The Compass Accountants team have been extremely helpful and are always available to provide expert advice. I joined the Trust earlier this year and they have been so helpful in getting me up to speed with the accounting audit." adds Chris. "The Trust's finance team have always found Compass a pleasure to deal with and going through the accounts for the Trust and the trading subsidiary is always a very smooth process."

If you are interested in visiting Kennet and Avon Canal Trust's attractions you can find opening times, directions and anything else you need to know, here:

www.katrust.org.uk
www.croftonbeamengines.org

## Tax Diary
## May/June 2019


**1st May 2019** Due date for Corporation Tax for years ended 31st July 2018.

**19th May 2019** PAYE and NIC deductions due for month ended 5th May 2019. (If you pay your tax electronically the due date is 22nd May 2019)

**19th May 2019** Filing deadline for the CIS300 monthly return for the month ended 5th May 2019.

**19th May 2019** Due date for CIS tax deducted for the month ended 5th May 2019.

**1st June 2019** Due date for Corporation Tax for years ended 31st August 2018.

**19th June 2019** PAYE and NIC deductions due for month ended 5th June 2019. (If you pay your tax electronically the due date is 22nd June 2019)

**19th June 2019** Filing deadline for the CIS300 monthly return for the month ended 5th June 2019.

**19th June 2019** Due date for CIS tax deducted for the month ended 5th June 2019.

## 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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