



Compass Accountants

Newsletter November- December 2014

Helping you to shape your future, not just accounting for your past...

TaxAngles - For proactive tax planning

Rent-a-room Relief

If you let a room or rooms in your main home you will not pay any tax on rents received as long as the gross receipts do not exceed £4,250 in a tax year.

This relief extends to owner occupiers and tenants who receive rent from letting furnished accommodation in their home.

If your gross receipts are more than £4,250 you can choose between paying tax on:

- Your actual profit- gross rents minus actual expenses -and in certain cases capital allowances, or
- Your gross receipts (and any balancing charges) minus £4,250; with no deduction for actual expenses or capital allowances.

Rent-a-room relief applies to a tax year and the limit of £4,250 is reduced to £2,125 if during the basis period someone else also received income from letting accommodation in the same property.

National Minimum Wage (NMW)

As from 1st October 2014 there will be an increase in National Minimum Wage rates. These rates will increase to:

- 21 and over £6.50 per hour
- 18 to 20 £5.13 per hour
- Under 18 £3.79
- Apprentice rate £2.73



Don't forget that HMRC oversees compliance with the NMW regulations. The types of workers who are not entitled to the minimum wage are:

- Self-employed people running their own business
- Company directors
- Volunteers or voluntary workers
- Workers on a government employment programme, e.g. the Work Programme
- Family members of the employer living in the employer's home
- Non-family members living in the employer's home who share in the work and leisure activities, are treated as one of the family and aren't charged for meals or accommodation (e.g. au pairs)
- Workers younger than school leaving age (usually 16)
- Higher and further education students on a work placement up to 1 year
- Workers on government pre-apprenticeships schemes
- People on the following European Union programmes: Leonardo da Vinci, Youth in Action, Erasmus, Comenius
- People working on a Jobcentre Plus Work trial for 6 weeks
- Members of the armed forces
- Share fishermen
- Prisoners
- People living and working in a religious community

Quote of the month...

“Ester asked why people are sad. “That’s simple,” says the old man. “They are the prisoners of personal history. Everyone believes that the main aim in life is to follow a plan. They never ask if that plan is theirs or if it was created by another person. They accumulate experiences, memories, things, other people’s ideas, and it is more than they can possibly cope with. And that is why they forget their dreams.” *Paulo Coelho, author, in The Zahir.*

Let us help you create a reality of your dreams for your future, contact Jeff Walton on **01329 844145**.

Workplace pensions overhaul

The Government has announced changes that should standardise, and in most cases reduce, the charges made to administer funds on behalf of contributors.

Draft regulations published in October confirm that charges to invest and manage the default funds of all qualifying schemes will be capped at 0.75% annually.

Small differences in charges can have a major impact on a pension pot by the time a person retires. An average earner due to accumulate a pension pot of around £30,000 could benefit to the tune of £1,600 by saving in a scheme charging 0.75% compared to one which charges 1.5% – and for many the boost could run into tens of thousands of pounds.

The draft regulations also ban unfair charges and hidden costs that could, without action, severely reduce people's pension savings over decades. The Government will bring forward further rules and regulations to ensure that from

April 2015 members of workplace personal pensions will not be charged consultancy fees for advice to their employer and from April 2016 savers in all types of scheme will no longer be charged commission or consultancy fees. Nor will they have to pay charges for pension savings which increase when they change jobs.

Pensions Minister Steve Webb said:

"Consumers have had a raw deal from the market for too long. A pension is one of the biggest investments you can make in your lifetime, yet many people have seen the savings they have put by all their working life, whittled away by high or needless charges they may not even be aware of. We are taking strong action to restore confidence in pensions by capping charges, banning hidden costs and putting new standards in place to ensure everyone saving in workplace pensions gets the best possible value for money.

With millions of people now saving through automatic enrolment, we want to

give them confidence that their hard-earned money is working for them and not disappearing in opaque charging structures and ending up lining the pockets of the pensions industry." The level and scope of the charge cap will be reviewed in 2017. The new governance standards will apply across all money purchase workplace pension schemes and will ensure that people running schemes understand the key components of scheme quality and have members' interests as their priority.

Under the changes, trustees of pension schemes will be required to design default funds in members' interests, keep them under regular review and ensure that core financial transactions are processed promptly and accurately. They will have to assess the value of costs and charges borne by those saving in a pension, and they must have a chair of trustees who will be responsible for signing off an annual statement on how the quality standards have been met.

The 0.75% cap will cover all charges excluding transaction costs.

Planning the Christmas celebrations

If you are involved in planning the staff Christmas party for your firm don't forget to consider the Income Tax and VAT consequences. Here's a short reminder of the points you should add to your check list.

The cost of an annual staff party or similar function is allowed as a deduction for tax purposes. However, the cost is only deductible if it relates to employees and their guests, which would include directors in the case of a company, but not sole traders and business partners in the case of unincorporated organisations. Also, as long as the criteria below are followed there will be no taxable benefit charged to employees:



1. The event must be open to all employees at a particular location.
2. An annual Christmas party or other annual event offered to staff generally is not taxable on those attending provided that the overall average cost per head of the functions does not exceed £150 p.a. (inc VAT). The guests of staff attending are included in the head count when computing the cost per head attending.
3. All costs must be taken into account, including the costs of transport paid to and from the event, accommodation provided, and VAT. The total cost of the event is merely divided by the

number attending to find the average cost. If the limit is exceeded then individual members of staff will be taxable on their average cost, plus the cost for any guests they were permitted to bring.

4. VAT input tax can be recovered on staff entertaining expenditure. If the guests of staff are also invited to the event the input tax has to be apportioned, as the VAT applicable to non-staff is not recoverable. However, if non-staff attendees pay a reasonable contribution to the event, all the VAT can be reclaimed and of course output tax should be accounted for on the amount of the contribution. If these limits are breached employers can pick up the tax cost by using a PAYE settlement agreement.

A final note on 'Trivial' gifts for employees.

Employers may find the following Revenue concession useful - we have copied the note directly from the HMRC handbook:

"An employer may provide employees with a seasonal gift, such as a turkey, an ordinary bottle of wine or a box of chocolates at Christmas. All of these gifts are considered to be trivial and as such are not taxable. For an employer with a large number of employees the total cost of providing a gift to each employee may be considerable, but where the gift to each employee is a trivial benefit, this principle applies regardless of the total cost to the employer and the number of employees concerned."

One final cautionary note regarding VAT and staff gifts, VAT is chargeable by the employer when an employee receives gifts that total more than £50 in a year. Turkeys, however, are still zero rated for VAT purposes!

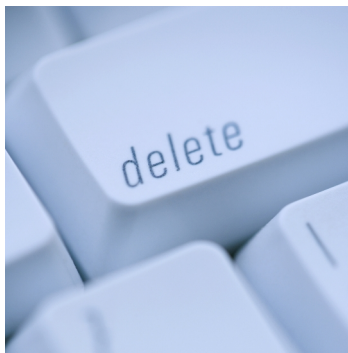
Latest email scam – make sure you aren't fooled

A new fake 'HMRC' email scam suggests taxpayers have been taken out of Self Assessment and need to click to sign up again.

We have been alerted to a new variant on the numerous email scams aimed at taxpayers. Purporting to have come from HMRC, the email says the recipient is no longer eligible to receive a tax return and needs to sign up with their current details to get back into the system.

The email comes with an HMRC logo, in the familiar green, but the spelling mistakes, poor layout and wording will suggest to many recipients that it is a fake. It also comes from a give-away non-official email address. However, some clients might be concerned that they appear to have been taken out of self assessment and may contact their agents, or – worse – click on the link.

As we have advised previously, in our regular warnings about phishing attempts, you can check HMRC's website for its [online security advice](#) and [examples of known phishing](#)



[emails](#). Forward suspicious emails to HMRC at phishing@hmrc.gsi.gov.uk, then delete them.

The full text of this latest scam email (complete with original typos) is as follows:

From: HMRC [<mailto:revn222@ipodnanouk.com>]

Sent: 18 September 2014 11:09

To: Recipients

Subject: HMRC - HM Revenue & Customs

Dear Taxpayer

We wish to inform you that as of September 20 you are no longer eligible to receive a Tax Return. The reason being the expiration of your current information regarding the method by which you receive your Tax Returns. To alleviate this problem you must renew this information by [filling out and submitting this form](#)

Untill you complete this process you will not be able to receive any Tax Return. Please note: Submitting invalid records can lead to the inability to receive Tax Returns for a period of 6 months.

Please submit the Tax Return Information Update Form and allow us 6-9 days in order to process it.

High income child benefit charge problems

Poorly targeted, aggressive letters from HMRC are causing trouble. We have had several emails and calls from clients who have received letters from HMRC asking them to check their tax return.

The letters appear to have been written to those individuals who said they had received child benefit and earned over £50,000 in 2012/13, but who did not themselves actually pay the high income child benefit charge (HICBC). This was correct because in the cases we have seen, the individual's spouse or partner earned the greater amount and had actually paid the HICBC, which seems to be being chased now.

The letters are written directly to the taxpayer to attract attention, with the words "You need to act now!" stamped in red across the front, but they have not been copied to Compass Accountants.

The letter states:

"We have checked your tax return for 2012 to 2013 against Child Benefit records. This shows that you or your partner continued to get Child Benefit after 7 January 2013."

It goes on to say that if the statements in the letter are correct, the recipient of the letter will have to pay the HICBC for 2012/13. The taxpayer is invited to amend their 2012/13 tax

return if they believe they should have paid the charge, but haven't.

In all the cases we have seen, we had correctly completed the tax returns of both taxpayers, and we are now faced with placating a concerned client, while also having to decide whether to respond to the letter on the client's behalf.

Almost as an afterthought, the letter says that no action is needed if the HICBC doesn't apply, but clearly, many accountants would prefer not to risk silence in case it prompts a further letter. This merely adds to the administrative cost of the HICBC.

It is unacceptable that HMRC has been able to cross-check a tax return with child benefit records, but has not apparently cross-checked with the taxpayer's husband's or wife's records.

We have said since the outset that attempting to implement this policy in this way would not work. Independent taxation should mean just that and collecting tax from one person on account of a benefit paid to their partner is just inviting problems.

IR35 Business Entity Tests to be withdrawn from April 2015

The Business entity tests (BETs), which were meant to help businesses determine whether they are caught by the notorious IR35 rules, are being withdrawn.

The BETs were developed by HMRC and launched in May 2012 after considerable discussion at the IR35 Forum. Our Institute of Chartered Accountants in England and Wales (ICAEW) and other professional bodies, together with other interested groups involved in implementing the IR35 rules, sit on this forum. It is probably fair to say that the BETs were not greeted with unanimous approval, as we reported at the time.

The tests form part of guidance which explains HMRC's risk-based approach to checking whether taxpayers are caught by the IR35 legislation in particular circumstances. The guidance does this by setting out a series of 12 business entity tests and awarding points according to the outcomes. The more points a taxpayer gets, the less chance there is that IR35 applies to that business for that contract.

The tests have actually caused considerable concern in some cases, especially in cases where an engager has insisted that subcontractors test their possible IR35 status against the BETs and will only award contracts to those assessed as low risk. A recent review by the Forum members has found the BETs are not helping as they are:

- used very little
- not fulfilling their intended purpose.

As a result the Forum's review has recommended withdrawing the BETs:

'HMRC has accepted this recommendation and will withdraw the BETs from 6 April 2015. Until then, businesses can continue to take the BETs if they wish or are asked to do so as part of a tendering process.'

The HMRC announcement goes on to explain that although the BETs are going, they can still be used in enquiry cases starting before then, where a 'low risk' score on a contract will result in the enquiry being closed.

HMRC's statement explains:

'The BETs won't be taken into account when HMRC opens an IR35 enquiry on or after 6 April 2015. However, if HMRC opens an enquiry before then, and a business can show to HMRC's satisfaction that they have taken the BETs with an outcome outside IR35 or in the 'low risk' band, then HMRC will close the enquiry. They also won't open another IR35 enquiry for 3 years if the information provided is accurate and circumstances, (in particular working arrangements) don't change in that time.

'When HMRC has previously closed an enquiry based on a result of the BETs then they won't open another IR35 enquiry within the 3 year period previously notified to the business.

'Where HMRC closes an IR35 enquiry based on the BET results, the business should keep those results and any evidence relied on to take the tests for at least the 3 year period involved.

'HMRC will also withdraw the example scenarios published with the BETs from 6 April 2015. There are no plans to replace the BETs or example scenarios.

HMRC will shortly publish updated guidance on the GOV.UK website.

New HMRC campaign targets undeclared card transactions

Businesses that accept debit and credit card payments but have failed to include these sales in their tax returns are encouraged to come forward

HMRC has recently launched its latest campaign aimed at individuals and companies in business that accept debit and credit card payments but have not declared the transactions in their tax returns.

HMRC's campaigns are opportunities for those with undeclared taxable income or gains to come forward and bring their affairs up to date. If those concerned do not use the opportunity to make a voluntary disclosure and HMRC catches up with them later, they face heavier penalties and possibly prosecution.

Unlike some campaigns, the [Credit Card Sales Campaign](#) does not have a closing date for those who wish to use it to notify HMRC. Its key features are:

- The taxpayer first has to notify HMRC of an intention to the disclosure opportunity.
- The taxpayer will then be given a disclosure reference number and will have four months to calculate and pay the tax due, together with penalties and interest.
- HMRC will offer a payment plan to those with genuine difficulty paying the arrears in one sum.



- Calculation may be required going back up to four, six or 20 years, depending upon the reasons why the income was not declared.
- The level of penalties will vary depending upon the circumstances but will usually be lower if the taxpayer takes part in the Credit Card Sales Campaign than if they do not.

It will be up to the taxpayer to decide how many years they should go back and what penalties (if any) they should pay, with reference to HMRC's guidance.

More information on how to make a disclosure is available at [Credit Card Sales campaign: your guide to making a disclosure](#)

People who are not eligible for the Credit Card Sales Campaign may be able to get up to date under another campaign (see [HMRC campaigns](#) or contact 0300 123 9272) or can come forward by calling the Voluntary Disclosure Helpline 0300 123 1077.

Other current campaigns are:

- The Second Incomes Campaign, aimed at employees who have not declared a second source of income. See [A new HMRC campaign targets people with second incomes](#)
- The Let Property Campaign, aimed at the residential property letting market. See [Opportunity for landlords to get their tax up to date.](#)

CASE STUDY: Marine Concepts

Reaping the rewards of innovation

Marine Concepts have been involved in the specialist construction of plugs and moulds in the marine industry since 1998. The organisation, based in Lee on Solent in Hampshire, carries out a vast range of marine fabrication projects, from producing completed mouldings for small components to hulls for leisure cruisers.

The Directors at Marine Concepts were aware that a tax relief in the form of a 'Research and Development Tax Credit' did exist, but had never thought it was appropriate for their business.

Compass Accountants met with Marine Concepts and carefully took the time to review and assess eligibility for the claim. After determining which of their previous projects was suitable for the R&D claim, Compass was also able to complete the whole application process on their behalf.



Terry Stubington, director of Marine Concepts, said, "Compass Accountants were able to swiftly provide a member of their team, who had a strong background in engineering and a history in filing such claims. It made a great difference to have the outside expertise required to identify and explain which processes were most appropriate for the application," said Mr Stubington. "We were unaware of exactly how much we were eligible for. Compass' experience was a great benefit to us. The whole application process was then left to them. We just sat back and waited for a response from HMRC."

Compass assisted with the full development and administration of the project, and presented the information and claim application. Within a number of weeks, the claim was approved and Marine Concepts received a substantial tax refund from HMRC.

"We were absolutely delighted with the result of our application. We would recommend Compass to any other organisations that are considering applying," explains Mr Stubington.

"Having a company of experts on your side to illustrate the specific areas you are entitled to claim for -as well as deal with technical reports and the process of application- made the whole experience of claiming as simple as possible."

*If you think your organisation may be eligible for Research and Development Tax Credit, contact us now on:
01329 844145.*

Tax Diary- November - December



1 November 2014 - Due date for Corporation Tax due for the year ended 31 January 2014.

19 November 2014 - PAYE and NIC deductions due for month ended 5 November 2014. (If you pay your tax electronically the due date is 22 November 2014).

19 November 2014 - Filing deadline for the CIS300 monthly return for the month ended 5 November 2014.

19 November 2014 - CIS tax deducted for the month ended 5 November 2014 is payable by today.



1 December 2014 - Due date for Corporation Tax due for the year ended 28 February 2014.

19 December 2014 - PAYE and NIC deductions due for month ended 5 December 2014. (If you pay your tax electronically the due date is 22 December 2014).

19 December 2014 - Filing deadline for the CIS300 monthly return for the month ended 5 December 2014.

19 December 2014 - CIS tax deducted for the month ended 5 December 2014 is payable by today.

30 December 2014 - Deadline for filing 2013-14 Self Assessment online to include a claim for under payments (under £3,000) be collected via tax code in 2015-16.

Get Connected



Don't forget, if you are a partner, associate, client or simply a business that would like to make contact, you can visit our Twitter account and LinkedIn company page for more news and updates. Our Twitter feed is @CompassAcc and our LinkedIn company page can be found by clicking [here](#).

We are also keen to feature our clients in the TaxAngles monthly newsletter as a subject of our 'Client Focus', where you get the chance to tell our readers more about your organisation.

Alternatively if you would like to introduce any of your own clients or contacts, enabling them to offer our readers an insight into their services, please email Jeff Walton jeffw@compassaccountants.co.uk

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 Jeff Walton on 01329 844145.



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