# Compass Accountants

## Newsletter - October/November 16

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

# TaxAngles - For proactive tax planning

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## Termination payments – what is changing?

The Government has been looking at the tax and National Insurance treatment of termination payments. They consulted last summer on possible changes and have recently published their response to the consultation, together with draft legislation. Some of the proposals are to be implemented. Others have fallen by the wayside. So what is changing and when?

**Current rules**

A termination package typically includes a number of elements, for example, salary, holiday pay, compensation for loss of office, pay in lieu of notice, and statutory redundancy pay. Different tax and National Insurance treatments apply to different elements of the package. So, to tax the package as a whole, it is necessary to identify each component part and tax that correctly.

Some payments made on termination are payments of earnings and attract PAYE tax and National Insurance. This is the case, for example, for payments of outstanding salary and for holiday pay. Other elements of the package are compensation payments designed to compensate the employee for losing his or her job. Redundancy pay and compensation for loss of office fall into this category. Payments which are taxed as termination payments rather than earnings benefit from a £30,000 tax exemption and are also currently free of National Insurance, even to the extent that they exceed the £30,000 tax-free limit.

Payments in lieu of notice (PILONs) are tricky. Broadly, a PILON which is contractual or expected is treated as a payment of earnings and is subject to PAYE and NIC without the benefit of the £30,000 exemption.

By contrast, a non-contractual PILON is taxed as a termination payment and benefits from the £30,000 exemption.

**From April 2018**

Although the basic approach will still be to identify the component parts and apply the correct treatment to each part, some changes to the rules are being introduced from April 2018.

From that date, termination payments in excess of the £30,000 exemption limit will attract employer's National Insurance contributions. However, as now, no employee National Insurance contributions will be payable.

More fundamentally, all PILONs will be treated as earnings and taxed as such. This means PILONs will no longer benefit from the £30,000 exemption even where the payment is non-contractual and damages in nature. Consequently, all PILONs will be liable to PAYE tax and National Insurance (employer's and employee's).

**Tip**

Plan ahead – pay non-contractual PILONs before 6 April 2018 where possible to take advantage of the £30,000 exemption where available.

**No change to exemption**

Despite consultation proposals to drastically change it, the £30,000 exemption will remain at its current level and in its current form. Proposals to replace it with a new-style (and lower) exemption, possibly linked to length of service, were rejected.

***Quote of the month…***

*"Study the past if you would define the future". - Confucius*

## Making the most of your personal account

The personal tax account is an online tax account for individuals. The personal tax account enables individuals to see all of their tax and National Insurance information in one place.

The personal tax account is a bit like an online bank account. It allows you to check your balances, file returns and pay any tax that you owe. It is also possible to check your National Insurance record and to get an estimate of your state pension (at today's rates) when you reach retirement age. This is useful as it can indicate whether you are on target for the full single-tier pension or whether it may be advisable to consider making voluntary contributions.

Taxpayers within PAYE can also check their tax code online via the personal account, check their pay to date, and see an estimate of their tax liability for the year. Again, this can be helpful in flagging up problems, such as a mistake in the tax code, which can then be rectified. It is also possible to check the tax paid last year (2016/17) and claim a tax refund if one is due.

If you are employed and have had too much tax deducted from your pay, this can be done online through the personal tax account using the online tool. To use the tool, you will need your P60 and details of taxable benefits and income received. A refund claim can be made via the personal tax account for the previous four tax years. The progress of the claim, once made, can be tracked through your personal tax account. A refund can also be claimed online if you have stopped working or flexibly accessed all or part of your pension. Employees can also claim tax relief for employment expenses through their personal account.

**Other services**

You can also find out about tax credits and child benefit through your personal account and, if eligible, make a claim for the marriage allowance.

It is also possible to update your personal details online.

**Increased security**

There is a lot of personal and financial information on your personal account and it is imperative that this information is secure. Consequently, HMRC have tightened access and in addition to providing your user ID and password, it is necessary to enter an access code (normally sent by text) and provide other information (such as passport details) to verify your identity.

If you have not already done so, take a look at your personal account. Managing your tax affairs online is generally a lot quicker than waiting in a queue to speak to someone at HMRC.

## Giving away your home

Many people worry about inheritance tax and, for the majority of people, their home is their most valuable asset. Parents, particularly as they enter their twilight years, may consider giving their home to their children or grandchildren to keep the taxman from getting his hands on it.

But there are questions to ask and pitfalls that should not be overlooked.

**Do you need to worry?**

Inheritance tax only bites if a person leaves an estate valued at more than the nil rate band. Spouses and civil partners can leave assets to each other free of inheritance tax.

The nil rate band is set at £325,000 and the Government have said that it will remain at that level until at least 2021. Spouses and civil partners can transfer the unused portion of their nil rate band to their partner. This means that currently a single person can leave an estate, including their home, worth £325,000 and a couple can leave an estate worth £650,000, including their home, before inheritance tax becomes a problem. So if your estate is not worth that much, you probably don't need to worry about giving your home away to potentially save inheritance tax.

**A higher tax-free amount from April 2017**

A new tax free allowance is being introduced from April 2017 which will make it easier for people to leave their home to direct descendants (children, grandchildren, etc.) when they die without triggering an inheritance tax liability. The main residence nil rate band is available for deaths that occur on or after 1 April 2017 in addition to the normal nil rate band where your home is included in the estate. You can still benefit from the new allowance if you downsized after 8 July 2015. As with the standard nil rate band, spouses and civil partners can transfer the unused portion of their main residence nil rate band to their partner. The main residence nil rate band is being introduced progressively from April 2017 and is set at £100,000 for 2017/18, £125,000 for 2018/19, £150,000 for 2019/20 and £175,000 for 2020/21.

**Tip**
By 2020/21 a couple will be able to leave an estate worth £1m, including a home worth at least £350,000, before inheritance tax is payable, as long as the home is left to direct descendants.

**Free capital gains tax uplift on death**

If you do not need to offload your home or other assets, it may be beneficial to leave your home in your will as the beneficiary will benefit from the tax-free capital gains uplift on death.

## Giving away your home (continued)

**High value estate – pass it on early?**

If you have a high value estate, you may want to consider passing on some assets before you die. If you survive seven years from the date of the gift, it drops out of inheritance tax. If you die between three and seven years after making the gift, the inheritance tax payable is reduced.

**Beware gifts with reservation**

Unfortunately, if you give away your property and continuing living in it rent-free the gift will not be effective in saving inheritance tax as it will remain part of your estate. You could give it away and rent it from your children, but your children would pay tax on the rent and if the rent was less than the market value, a tax charge may arise under the pre-owned assets rules. This is a complicated area, so speak to your tax adviser.

## Paying subsistence expenses using benchmark rates

The old dispensation regime came to an end on 5 April 2016 to be replaced with a new statutory exemption for qualifying paid and reimbursed expenses. The new exemption applies for 2016/17 and later tax years.

Under the terms of the exemption, employers can pay or reimburse certain subsistence expenses using benchmark rates set out in regulations. Prior approval from HMRC to use the rates is not needed. The rates represent the maximum amounts that can be paid free of tax and National Insurance without agreeing a bespoke rate with HMRC. It is not compulsory for the employer to pay the benchmark rates – rates lower than those set out in the regulations can be paid and remain within the scope of the exemption.

**The rates**

The subsistence rates depend on the journey time and are as set out below. A `meal' takes its normal everyday meaning of a combination of food and drink.

| **Minimum journey time** | **Maximum meal allowance** |
|---|---|
| 5 hours | £5 |
| 10 hours | £10 |
| 15 hours and beyond 8pm | £25 |

If the five-hour or ten-hour rate is paid and the qualifying journey in respect of which the allowance is paid lasts beyond 8pm, a supplement of £10 can also be paid. Where employees are required to start late or finish early on a regular basis, the five-hour or ten-hour rate, as applicable, can be paid.

**Qualifying conditions**

The benchmark rates can only be used if the qualifying conditions are met. These are as follows:

- The travel must be in the performance of the employee's duties or to a temporary workplace. Journeys which are the normal journey to and from work do not count.
- The employee should be away from his normal workplace or home for five hours or ten hours, as appropriate.
- The employee must have incurred expenditure on a meal and retained a receipt as evidence.

**Tip**

The full rates can be paid even if the actual amount spent by the employee was less than the benchmark rates. Use of the rates saves work for the employer.

**Tip**

If the employee spent more than the amount reimbursed, they can claim a deduction for the shortfall as long as they have kept the receipt.

**Trap**

If the employer pays more than the benchmark rate without agreeing a bespoke rate, the excess is taxable and liable to NICs.

**Bespoke rates**

Where higher amounts can be justified, the employer can agree bespoke rates with HMRC. Employers can use the bespoke rate process to agree a rate for overnight accommodation.

## National Minimum Wage and National Living Wage rates

The hourly rate for the minimum wage depends on your age and whether you’re an apprentice.

You must be at least:

- school leaving age to get the National Minimum Wage
- aged 25 to get the National Living Wage - the minimum wage will still apply for workers aged 24 and under

### Current rates

These rates are for the National Living Wage and the National Minimum Wage from 1 October 2016.

| Year | 25 and over | 21 to 24 | 18 to 20 | Under 18 | Apprentice |
|---|---|---|---|---|---|
| October 2016 (current rate) | £7.20 | £6.95 | £5.55 | £4.00 | £3.40 |

National Minimum Wage rates change every October. National Living Wage rates change every April.

### Apprentices

Apprentices are entitled to the apprentice rate if they’re either:

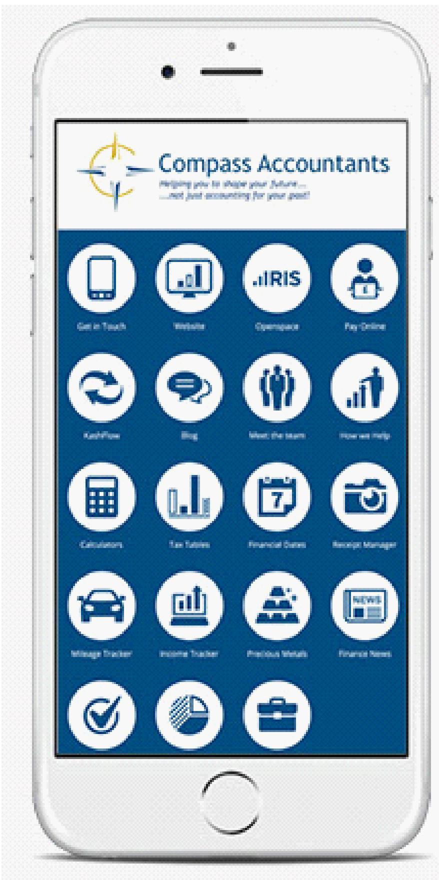
- aged under 19
- aged 19 or over and in the first year of their apprenticeship

**Example** An apprentice aged 22 in the first year of their apprenticeship is entitled to a minimum hourly rate of £3.40
Apprentices are entitled to the minimum wage for their age if they both:

- are aged 19 or over
- have completed the first year of their apprenticeship

**Example** An apprentice aged 22 who has completed the first year of their apprenticeship is entitled to a minimum hourly rate of £6.95

## Say Goodbye to ‘receipt management’ with the new Compass’ App




Let’s face it, keeping, organising and filing receipts is no fun! However, it is something most of us have to do. Whilst we can’t eliminate the necessity to retain receipts and invoices, we can help you simplify the process of maintaining your expenses without ever losing a receipt again.

The new Compass Accountants App has a ‘receipt manager’ function that allows you to scan, save and store your receipts with the click of a button from your smart phone. After downloading the app from the homepage of our website (or iTunes/Google Play) you can use the camera function of your device to photograph it, then it automatically saves through the App.

You can then store it using any information you choose such as amount, client, category, or date. You can even add notes to the receipt for later and once the receipt is stored, you can simply press ‘email accountant’ and the receipt will be sent to a pre-agreed email address, with an auto-populated subject line for ease of filing and reference. Simple.

And, just in case you are concerned about HMRC’s policies on digital paperwork, it has now confirmed that it is completely acceptable to have digital versions of receipts and invoices, but it is worth noting they should be kept for the same amount of time as paper documents (which is 5 years after the filing date).

So, say goodbye to receipts now and download the Compass Accountants App!

Also, don’t forget to tell your colleagues, family and friends about the Compass App as it is not exclusive to Compass clients and entirely free to download!

*To download the Compass Accountants App go to www.compassaccountants.co.uk and download from the home page or download directly from iTunes or Google Play by searching for Compass Accountants.*

## Compass Celebrates Joe's Success!


Everyone at Compass was delighted to celebrate the news that Joe Curtis, recently passed his level 3 AAT Advanced Diploma in Accounting, with flying colours.

Joe, a trainee accountant at Compass, has been working hard and regularly studying at Itchen College in Southampton to gain the qualification. Having graduated from Southampton Solent University with a degree in Business and Financial Management in 2010, Joe worked for a period of five years at Tesco, before joining Compass Accountants in 2015. Since then he has rapidly made progression, gaining confidence in industry practice.

Having passed his Level 3 AAT he now plans to continue to study, with a view to becoming a fully ACCA qualified member of the Compass team. His progress with the AAT Level 4 Diploma, which covers high-level accounting and finance topics and tasks, has already begun following his enrolment on the course.

"It's always great to see colleagues develop" says Director, Stuart Lawrance "Joe has certainly proven that he has the skill and determination to go far here at Compass!"

## Tax Diary
## October/November 2016


| | |
|---|---|
| **1 October 2016** | Due date for Corporation Tax for years ended 31 December 2015. |
| **5 October 2016** | Deadline to notify chargeability for Income Tax or Capital Gains Tax if not already registered for Self-Assessment |
| **19 October 2016** | PAYE and NIC deductions due for month ended 5 October 2016. (If you pay your tax electronically the due date is 22 October 2016) |
| **19 October 2016** | Filing deadline for the CIS300 monthly return for the month ended 5 October 2016. |
| **19 October 2016** | Due date for CIS tax deducted for the month ended 5 October 2016. |
| **31 October 2016** | Filing deadline for paper submission of Self-Assessment tax returns for the year ended 5 April 2016. |
| **1 November 2016** | Due date for Corporation Tax for years ended 31 January 2016. |
| **19 November 2016** | PAYE and NIC deductions due for month ended 5 November 2016. (If you pay your tax electronically the due date is 22 November 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.

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