



COMPASS

ACCOUNTANTS

TAX ANGLES FOR PROACTIVE PLANNING

Newsletter - September 2019

In this month's edition...

- Check your tax calculation
- Payroll - how to deal with new starters
- When is a car a pool car?
- Directors' loan accounts - avoiding the risks
- Tax credits - do I have to tell HMRC if my circumstances change?
- Client Focus - Bloc Design

Check your tax calculation

Each year HMRC undertake a PAYE reconciliation for employed individuals who are not required to submit a tax return to check that the correct amount of tax has been paid. Where it has not, HMRC will send out either a P800 tax calculation or a PA302 simple assessment.

P800 tax calculation

A P800 tax calculation may be issued if an employee has paid too much tax, or if they have paid too little and the tax underpayment can be collected automatically through an adjustment to their PAYE tax code.

There are various reasons why a person who pays tax under PAYE may have paid the wrong amount of tax. This may be because:

- they finished one job and started a new one and were paid for both jobs in the same tax month;
- they started receiving a pension at work; or
- they received Employment and Support Allowance or Jobseeker's Allowance (which are taxable).

P800 calculations for 2018/19 are being sent out by HMRC from June to November 2019.

If the P800 shows that tax has been overpaid, it will say whether a refund can be claimed online. If so, this can be done through the personal tax account.

Where a claim is made online, the money should be sent to the claimant's bank account within 5 working days. In the event a claim is not made within 45 days of the date on the P800, HMRC will send out a cheque. If an online claim is not possible, HMRC will also send out a cheque.

PA302 simple assessment

Instead of a P800 tax calculation, an individual may instead receive a PA302 simple assessment. This is effectively a bill for tax that has been underpaid. HMRC may issue a simple assessment if:

- the tax that is owed cannot be taken automatically from the individual's income;
- the individual owes HMRC tax of more than £3,000; or
- they have to pay tax on the State Pension.

A simple assessment bill can be paid online.

Check your calculation

If you receive a tax calculation or simple assessment from HMRC, do not simply assume that it is correct – HMRC can and do make mistakes. It is prudent to check that their figures are correct.

When checking the calculation, check HMRC's figures against your records, such as your P60, your bank statements and letters from the Department of Work and Pensions..

Check that employment income and any pension income is correct, and that relief has been given for expenses and allowances. HMRC have produced a tax checker tool (available on the Gov.uk website at www.gov.uk/check-income-tax) which can be used to check the amount of tax that should have been paid.

If you think that your tax calculation is incorrect, you will need to contact HMRC. This can be done by phone by calling 0800 200 3300.

If you do not agree with your simple assessment, you have 60 days to query this with HMRC by phone or in writing. The simple assessment letter explains how to do this.

Payroll – how to deal with new starters

From a payroll perspective, there are various tasks that an employer has to perform when they take on a new starter.

For 2019/20 an employer needs to operate PAYE where the employee earns more than £118 per week (the lower earnings limit for National Insurance purposes). However, if any employees earn more than £118 per week, the employer must comply with RTI and report all payments to employees to HMRC (even those below £118 per week).

Work out what tax code to use

The tax code is fundamental to the operation of PAYE and it is important that the correct tax code is used. To ensure that a new employee is taxed correctly, the employer will need to know the correct tax code to use.

If the employee has a P45 and left their last job in the current tax year, the employer can simply use the code shown on the P45. If the employee left their last job in the 2018/19 tax year, the code on the P45 can be updated by adding 65 to codes ending in L, 59 for codes ending in N and 71 for codes ending in M.

If the employee does not have a P45, the employer will need to ask the employee to complete a new starter checklist.

New starter checklist

The new starter checklist enables the employer to gather information on the new employee. Even if the employee has a P45, it is still useful for the new starter to complete the checklist as it contains information which cannot be gleaned from the P45 (such as the type of loan where the new starter has a student loan which has not been repaid).

As far as establishing which tax code to use, the employee will need to select one of three statements:

- A: 'This is my first job since 6 April and I have not been receiving taxable Jobseeker's Allowance, Employment and Support Allowance, taxable Incapacity Benefit, State or Occupational Pension'.
- B: 'This is now my only job but since 6 April I have has another job or received taxable Jobseeker's Allowance, Employment and Support Allowance or taxable Incapacity Benefit. I do not receive a State or Occupational Pension.
- C: 'As well as my new job, I have another job or receive a State or Occupational Pension'.

The following table indicates what code should be used for 2019/20 depending on what statement the employee has ticked.

Statement ticked	Tax code to use
A	1250L on a cumulative basis
B	1250L on a Week 1/Month 1 basis
C	BR

Does the employee have a student loan?

The employer will also need to establish whether the employee is making student loan repayments. If the employee has a P45 and is making loan repayments, the student loan box will be ticked. However, the P45 will not provide details of the type of loan.

Student loan information can be provided on the new starter checklist, enabling the employer to ascertain whether the employee has a student loan, and if so what type, and also whether the employee has a post-graduate loan.

Tell HMRC about the new employee

The employer will need to add the new employee to the payroll and also tell HMRC that the employee is now working for the employer. This is done by including the new starter details on the Full Payment Submission (FPS) the first time that the employee is paid.



When is a car a pool car?

Rather than allocating specific cars to particular employees, some employers find it preferable to operate a carpool and have a number of cars available for use by employees when they need to undertake a business journey. From a tax perspective, provided that certain conditions are met, no benefit in kind tax charge will arise where an employee makes use of a pool car.

The conditions

There are five conditions that must be met for a car to be treated as a pool car for tax purposes.

1. The car is made available to, and actually is used by, more than one employee.
2. In each case, it is made available by reason of the employee's employment.
3. The car is not ordinarily used by one employee to the exclusion of the others.
4. In each case, any private use by the employee is merely incidental to the employee's business use of the car.
5. The car is not normally kept overnight on or in the vicinity of any of the residential premises where any of the employees were residing (subject to an exception if kept overnight on premises occupied by the person making the cars available).

The tax exemption only applies if all five conditions are met.

When private use is 'merely incidental'

To meet the definition of a pool car, the car should only be available for genuine business use. However, in deciding whether this test is met, private use is disregarded as long as that private use is 'merely incidental' to the employee's business use of the car.

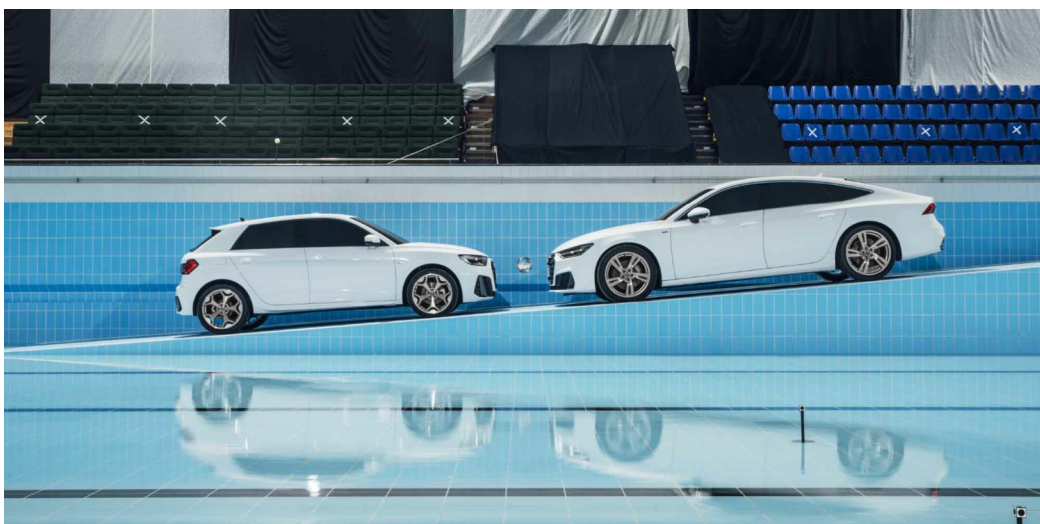
HMRC regard the test as being a qualitative rather than a quantitative test. It does not refer to the actual private mileage, rather the private element in the context of the journey as a whole. For example, if an employee is required to make a long business journey and takes the car home the previous evening in order to get an early start, the private use comprising the journey from work to home the previous evening would be regarded as 'merely incidental'. The car is taken home to facilitate the business journey the following day.

Kept overnight at employee's homes – the 60% test

For a car to meet the definition of a pool car, it must not normally be kept overnight at employees' homes. In deciding whether this test is met, HMRC apply a rule of thumb – as long as the total number of nights on which a car is taken home by employees, for whatever reason, is less than 60% of the total number of nights in the period, HMRC accept that the condition is met.

When a benefit in kind tax charge arises

If the car does not meet the definition of a pool car and is made available for the employee's private use, a tax charge will arise under the company car tax rules.



Directors' loan accounts – avoiding the risks

HMRC produce a series of toolkits which set out common errors that they find in returns. The hope is that by being familiar with the mistakes that are routinely made, steps can be taken to avoid them.

Although the toolkits are aimed primarily at agents, they are useful for anyone who has to complete a tax return. The directors' loan accounts toolkit highlights the key areas of risk in relation to directors' loan accounts. The latest version of the toolkit was published in May 2019 and should be used for personal tax returns for 2018/19 and for company returns, for the financial year 2018.

Personal expenses

Expenses are only deductible in computing taxable profits to the extent that they are incurred wholly and exclusively for the purposes of the trade.

A company is a separate legal entity to the directors and shareholders. However, many close companies meet directors' personal expenses. Where these are not part of the director's remuneration package, the company cannot deduct the cost when computing its taxable profits. Instead, they should be charged to the director's loan account. The director's loan account toolkit focuses on expenses that do not form part of the director's remuneration package.

Risk areas

1. Review of the accounts - any personal expenditure incurred by the director and paid for by the company must be allocated correctly, i.e. an allowable expense where it forms part of the director's remuneration package and charged to the director's loan account. Account headings should be reviewed to identify director's personal expenditure which has not been treated correctly.
2. Loans to participators – under the close company rules, tax (section 455 tax) is charged at 32.5% on loans to directors who are also shareholders where the loan remains outstanding nine months and one day after the end of the accounting period. Review overdrawn loan accounts to check whether the company is liable to pay section 455 tax.
3. Review of expenses and benefits – where a director is provided with anything other than pay, it may need to be reported to HMRC as a benefit in kind on form P11D. Review expenses and benefits for taxable items that may have been missed. It should be noted that if the director's loan account balance exceeds £10,000 at any point in the tax year, a benefit in kind charge will arise on the loan unless the director pays interest at a rate that is at least equal to the official rate (2.5% since 6 April 2017).
4. Self-assessment – check whether the director needs to send a self-assessment return. The directors' loan accounts toolkit states that "Company directors do not need to send a tax return unless that have other taxable income that needs to be reported, or if HMRC has sent a notice to file a return".
5. Record keeping – good keeping is essential. Poor records may mean expenditure is missed or allocated incorrectly.

Checklist

The toolkit features as useful checklist which can be completed to make sure that nothing is overlooked. The checklist contains a helpful link to HMRC guidance.



Tax credits – do I have to tell HMRC if my circumstances change?

Tax credits are benefit payments that are paid to people in work who are on a low income or have children. There are two tax credits – working tax credit (for those working but on a low income) and child tax credit (for those on low income, regardless of whether they are working or not, with children). Existing tax credit claimants need to renew them each year.

New claimants must claim Universal Credit rather than Working or Child Tax Credits; eventually, existing tax credit claimants will be moved over to Universal Credit. This is due to happen between November 2020 and December 2023.

Tax credits can go up or down as a result of changes in family or work circumstances.

Changes that must be reported to HMRC

A tax credit claimant must report any of the following changes in circumstance to HMRC.

1. Living circumstances change, for example if a partner moves out, or you start to live with a new partner, you get married or form a civil partnership, or you separate permanently, or you divorce.
2. Your partner or child dies.
3. A child leaves home or is taken into care.
4. A child is taken into custody.
5. A child over the age of 16 leaves approved education or training or a careers service.
6. Childcare costs go down by more than £10 per week, or you start receiving help with childcare costs.
7. If you are in a couple, your combined working hours fall to below 30 hours per week.
8. Working hours fall below the minimum needed for working tax credit, which depend on circumstances.

It is necessary to make a new claim if a relationship ends or you start a new relationship, or if your partner dies.

You must also tell HMRC if any of the following occur.

1. You go abroad for eight weeks or more.
2. You leave the UK permanently or lose your right to reside in the UK.
3. You reduce your working hours to less than 16 hours per week while claiming childcare costs.
4. You have been on strike for more than 10 consecutive days.

Changes in income, benefits and working hours

If tax credits are overpaid, the overpayment will need to be returned to HMRC. To avoid building up an overpayment which will have to be paid back, HMRC should be notified if any of the following occur.

1. A change in income (if increases or decreases by £2,500 HMRC should be notified immediately so that tax credit payments can be adjusted)
2. Combined working hours for a couple who have children are increased to 30 hours a week or more.
3. You have a baby or take on responsibility for another child.
4. You start or stop claiming benefits or your benefits change.
5. You start or stop getting a disability payment.
6. Your child is certified blind (or is no longer blind).
7. You start paying for registered or approved childcare.
8. You stop getting help with childcare.

Time limit for reporting changes

The above changes must be reported to HMRC within one month of the date on which they occur.

Report changes online

Changes can be notified online at www.gov.uk/changes-affect-tax-credits.

Client Focus – Bloc Design

This month we catch up with Neil Scott- a Compass client and the owner of Bloc Design Studio, a full-service design agency based in Southampton



"With over 20 years of experience, Bloc Design can confidently cover every aspect of creative and design work. Based near the River Hamble in Southampton, Neil Scott is the owner and sole employee of the studio, which is a creative resource to many businesses, both large and small, across the South and further afield.

Neil's experience ranges from working with large organisations including Barclays Bank, Motorola and Kenwood to a vast number of small and medium sized organisations that use his services.

"I guess I'm a one-stop-shop in terms of what I can offer." explains Neil. "My services include creative design, branding, websites, illustration, advertising and printing, I even do CGI illustrations for the property sector. I offer the whole range really!"

Since starting out on his own, Neil has developed a client base made up of various sized businesses in a wide range of sectors and industries. One of which is Portsmouth FC, where Neil recently redesigned the club's crest.

"Portsmouth Football Club are a great client to work for. Of course, it's very satisfying to see your work around the club, in the shop and on the players shirts."

Portsmouth is not the only football club Neil has worked with, having also designed for Southampton FC from 2004-2015 and Arsenal FC for a couple of years too.

"Despite having developed niches in football and property, I don't restrict my offering to any specific area." explains Neil. "I actually enjoy helping the smaller businesses to rebrand and develop their resources. I also work with a lot of marketing agency partners that aren't quite large enough to have an in-house design team, and so outsource to freelancer designers."

Working with Compass...

Having been a client of Compass' for just over five years, Neil explains why Compass and Bloc Design have a lasting partnership.

"Over the years, Compass have proven to be a great asset for me. They are always there when I need them – they are very knowledgeable and when I do need assistance with something, they have always been a massive help."

"It's a weight off your shoulders to know, that if you do need help or advice, they are at the end of the phone. When I visit the offices to meet them, everyone is friendly, warm and very approachable- I entirely recommend them."

To find out more about Bloc Design go to:

<https://www.bloc-design.co.uk/>

Email info@bloc-design.co.uk or call 02380 172 801



Tax Diary September/October 2019



1 September 2019 - Due date for Corporation Tax due for the year ended 30 November 2018.

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

19 September 2019 - Filing deadline for the CIS300 monthly return for the month ended 5 September 2019.

19 September 2019 - CIS tax deducted for the month ended 5 September 2019 is payable by today.

1 October 2019 - Due date for Corporation Tax due for the year ended 31 December 2018.

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

19 October 2019 - Filing deadline for the CIS300 monthly return for the month ended 5 October 2019.

19 October 2019 - CIS tax deducted for the month ended 5 October 2019 is payable by today.

31 October 2019 – Latest date you can file a paper version of your 2019 self-assessment tax return.

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.



Contact us:
TEL: 01329 844145
EMAIL: contact@compassaccountants.co.uk

Compass Accountants

Venture House,
The Tanneries, East Street, Titchfield
Hampshire
PO14 4AR