Compass Accountants

Newsletter - September/October 16

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

TaxAngles - For proactive tax planning

In this month's edition…

Tips – Must I pay tax and NIC?

For those working in hospitality, tips form an important and often significant part of their pay. However, the tax and National Insurance implications are often overlooked.

While tax is payable regardless of how the tips are received, the National Insurance position is more complicated, as the extent to which a liability arises depends on how the tips are paid. A payment by way of a tip or gratuity is exempt from National Insurance if either of the following conditions is met:

- the tip is not paid, directly or indirectly, to the employee by the employer and does not represent money previously paid to the employer by customers;
- it is not allocated directly or indirectly to the employee by the employer.

Cash tips

Where a worker receives cash tips direct from a customer, the worker must pay tax on those tips. However, no National Insurance contributions are due. If the worker completes a self-assessment tax return, he or she must declare any cash tips received on the tax return. If a tax return is not completed, HMRC will estimate the tips from information received from the employer and will adjust the worker's tax code so as to collect the tax on the tips directly from the worker's pay.

Tip

Keep a record of tips actually received in case HMRC's estimate is wrong, and if it is let them know so that they can adjust your tax code – or you may end up paying tax on tips that you have not actually received.

If the tips are paid to the employer and the employer decides how to allocate them to the staff, National Insurance is due. This may be the case where the employer collects tips left on a table and splits the tips between the staff or passes the tip onto the employee who served the customer. If the employer pays the tips to the employee, the employer must operate PAYE.

Tips included in card or cheque payments

It will often be the case that a customer will add on a tip when settling their bill by card, or even cheque, and indeed will often by encouraged to do so by the card machine. Where the tips are paid to the employer in this way in the first instance and then paid over to the workers, the employer is responsible for making sure that tax is paid and must operate PAYE. If the employer passes the tips to the employee and/or decides how they are allocated, employer and employee Class 1 National Insurance contributions are also due.

Troncs

A tronc is an arrangement for sharing tips. The troncmaster must tell HMRC about the arrangement and PAYE must be operated, either under a separate PAYE scheme or via the employer's PAYE scheme. If National Insurance is due (because the employer received the money first or determined how the tips are allocated), it is the employer rather than the troncmaster who is responsible for calculating the NIC due and paying it to HMRC.

Quote of the month…

"Its amazing how a little tomorrow can make up for a whole lot of yesterday" John Guare - Irish Playwright

Cash in hand – beware

It is sometimes mistakenly believed that you do not need to tell HMRC about payments that you receive in cash. This is not the case and regardless of whether you work for yourself or for someone else, earnings that you receive in cash are taxable in the same way as income paid by cheque, credit card or by bank transfer.

There are particular types of tax dodges that HMRC look out for:

- Businesses which should be registered for VAT but aren't;
- People who pay no tax on their income (`ghosts');
- People who pay tax on some of their earnings but not all (`moonlighters').

Case study 1
Bob is a builder. He invoices for some jobs and 'puts them through the books'. He also does some smaller jobs 'for cash' which he does not declare.

HMRC investigate him and discover that he has under-declared his income by around £10,000 a year for a number of years. He must pay the tax that he owes, together with interest and penalties.

Bob should have provided all customers with an invoice regardless of how he was paid and included all takings, including his cash takings, on his tax return. By failing to declare all of his income he has paid more in tax, interest and penalties than if he had been honest in the first place.

Case study 2
Jack buys and sells scrap for cash. He does not keep any records and does not tell HMRC. He is a `ghost'. The fact that he does everything in cash does not take him outside the tax net and he should register as `self-employed' with HMRC and complete a self-assessment tax return. While he may be happy to try and stay under HMRC's radar, the fact that he has not told HMRC about his income does not make it any less taxable. If HMRC catch up with him, he will have to pay interest and penalties as well as the tax that he owes.

Case study 3
Harry is a plumber. Like Bob, he puts some jobs through the books and does some jobs for cash, which he doesn't declare. His books show his turnover to be around £75,000 a year – less than the VAT threshold. However, once his cash takings are taken into account, his turnover is in the region of £90,000 a year. Not only should Harry have included his cash takings on his self-assessment tax return, he should also have registered for VAT.

Case study 4
Claudette is a French teacher. She also offers private tuition in her own time. Her pupils pay her in cash. She does not understand the tax system and believes that she does not need to tell HMRC. She is mistaken. Although she is employed, she is also self-employed in relation to her private tuition work and must register as such and complete a tax return.

Looking ahead
New allowances are to be introduced from April 2017 which mean that anyone who has income from selling goods and services of less than £1,000 will not need to tell HMRC about it or pay tax on it.

Claiming tax reliefs if you are employed

If you are an employee, you may spend your own money on things that are related to your job. Where this is the case, you may be able to claim tax relief.

What can I get tax relief for?
The rules are strict and relief is only available for expenses which are `wholly, necessarily and exclusively' incurred for the purposes of the job. This is a hard test to meet, but HMRC will generally treat it as being met in relation to items that are incurred clearly for work purposes only, such as travel for business journeys and associated expenses such as hotel accommodation and parking. You can also claim tax relief for business calls on your home or mobile phone, professional fees and subscriptions which you are required to pay as a condition of your job, and expenses incurred as a result of working from home where you are required by your job to do so.

What if my employer reimburses me?
From 6 April 2016, a new statutory exemption means that if an employer reimburses an employee for expenses for which the employee would be able to claim tax relief, both parties can effectively ignore the reimbursement. The money reimbursed does not need to be declared to HMRC and the employee does not need to claim tax relief. Prior to 6 April 2016, this was only the case if a dispensation was in place. Otherwise the employee was taxed on the amount reimbursed and had to claim the associated tax relief.

How do I claim relief?
The mechanism for claiming relief depends on the amount of the claim. If the claim is for £2,500 or less and you don't complete a self-assessment tax return (which may be the case if your only income is from your job), you can make the claim on form P87. Claims can be made online or post (see https://www.gov.uk/government/publications/income-tax-tax-relief-for-expenses-of-employment-p87).

If you complete a tax return, you can also make a claim in your return.

It is also possible to claim by phone if your expenses are less than £1,000 (or less than £2,500 where they relate to professional fees and subscriptions) and you have made a successful claim in a previous year.

Claims for relief for more than £2,500 must be made by completing a self-assessment tax return.

Effect to the claims is normally given via an adjustment to your tax code.

Property losses – what can you do with them

For income tax purposes, income from land or property in the UK which is owned by the same person or group of persons is treated as forming a property rental business. Tax is charged by reference to the profits of the business as a whole, rather than by reference to each individual property. This means that as profits of one property are netted off against losses of another, there is no need to consider what to do with losses unless the business as a whole makes a loss.

Example

Wayne has a property portfolio comprising four properties, A, B, C and D. For the tax year in question, the income and expenses in relation to each property are as follows:

Property	Income	Expenses	Profit/ (loss)
A	£10,000	£3,000	£7,000
B	£6,000	£8,000	(£2,000)
C	£12,000	£4,000	£8,000
D	£8,000	£5,000	£3,000
Overall	£36,000	£20,000	£16,000

As all of the income and expenses from all of the properties in the property rental business are effectively thrown into the pot to determine the profit or loss for the property rental business as a whole, the loss on property B is automatically relieved against profits of the other properties to arrive at the overall profit for the property rental business as a whole of £16,000.

Loss for the business as a whole

If the property rental business as a whole makes a loss, as will be the case if the expenses incurred in relation to all properties forming the property rental business are greater than the income from all the properties, the loss can only be carried forward and set against future income from the same property rental business. The options available for relieving a trade loss, such as against other income of the same tax year, are not available in relation to property income losses, which essentially remain within their own channel. The exception to this rule is where the rental business capital allowances are due, in which some or all of the capital allowances element of the loss can be set against general income.

Example

In 2014/15, Tony makes a loss of £4,000 in respect of his property rental income. In 2015/16 he makes a profit of £6,000. The loss from 2014/15 is carried forward and set against the profits of 2015/16, leaving profits of £2,000 to be assessed in 2016/17 (the profits for that year of £6,000 less the loss of £4,000 carried forward from 2014/15).

Losses in a furnished holiday lettings business can now only be carried forward and set against future profits from that furnished holiday business.

Cash basis – is it for you?

As we move closer to a digital age, HMRC have recently published proposals to extend the opportunity to prepare accounts using the cash basis to more businesses and landlords. So, what is the cash basis and is it for you.

Traditional accounting

Under traditional accounting, accounts are prepared by reference to the `accruals basis', which takes account of invoiced sales and bills, regardless of whether they have been paid or you have paid them. Under this traditional basis of accounting you need to make various adjustments at the end of the year (for things like accruals and prepayments) so that what is shown in the accounts for the year actually relates to the year. So, for example, if you prepare accounts to 31 December but are invoiced annually for your insurance on 1 September for the year to the following 31 August, for the year to 31 December 2016, the insurance figure in your P and L account will be 9/12 of the bill for the year to 31 August 2016 and 3/12 of the bill for the year to 31 August 2017.

Cash accounting

Cash accounting is much simpler in that you only take account of money in and money out in the year. You recognise sales when you are paid not when you invoice and, likewise, you take account of expenses when you pay the bill rather than the date on which you are billed.

However, at the moment, the cash basis is only available if you are a sole trader or partnership and your income is less than the current VAT threshold, set at £83,000 from 1 April 2016. Once you have opted to use the cash basis, you can continue to use it even if your business grows above £83,000 as long as it does not exceed £166,000 (2016/17 figures). Once this level is reached you must use traditional accounting.

If you use the cash basis you must tick the relevant box on the tax return to tell HMRC this is what you are doing.
You can also use the simplified expenses scheme to claim expenses for running a car, working from home or if you live in your business premises.

Cash basis – is it for you? (Continued)

Capital allowances

Under the cash basis, you can claim capital allowances for a car you use in your business, but only if you are not claiming simplified expenses. However, for other equipment, etc., you simply deduct the cost as an expense when working out your profits and you do not need to claim capital allowances. By contrast, if you use traditional accounting you must claim capital allowances.

Why might it not be for me?

Although it is much simpler to prepare your accounts using the cash basis, it is not for everyone. You can only use it if you are eligible and even if you are, you may prefer to stay with traditional accounting. This may be the case if your business is complicated or if you want to raise finance, as the bank may ask to see traditional accounts. You may also need to stick with traditional accounting if you have interest or bank charges of more than £500 that you want to claim as an expense, or if you have losses you want to relieve sideways against other income of the same year.

Before making the decision, you may want to discuss it with your accountant or tax adviser.

Business miles simplified with the new Compass App

Anyone that claims for business mileage, will know that keeping track of previous journeys can be a frustrating task. Maintaining an account of every individual trip and calculating the precise distances through Google maps can be a time consuming burden. Which is why we are delighted to announce, that our new smartphone app has been designed to simplify this entire process for you.

The new Compass App, (which is free of charge and downloadable from iTunes and Google Play) allows you to permanently record all the information you need directly on to your smartphone.

Once the app is downloaded you simply set the mileage calculator to ‘Start Trip’, and let the wonders of your GPS system do the rest, recording all the details of your journey, alongside a precise number of miles covered. When you arrive at your destination just click ‘End Trip’ and all details are automatically saved in your account.

You can also view all the details of your previous trips, including the dates of travel, times, reasons for travel, miles covered and more. These details can then be instantly emailed to Compass Accountants, or your head office or payroll department depending on who requires the information.

In addition to the business mileage tracker the app also boasts tax tables, calculators, photo receipt managers, finance news, notifications, messaging tools and lots more.

If you haven’t downloaded the Compass App already, go straight to the homepage on the Compass website and download it now using the link or alternatively, go to iTunes or Google Play and search for ‘Compass Accountants’.

If you would like to arrange a meeting to discuss a specific issue related to company cars or the tax implications of reclaiming mileage, please feel free to contact us on www.compassaccountants.co.uk

Government propose new sanctions for tax avoidance

The government has announced new proposals for sanctions for 'enablers and users of tax avoidance which is defeated by HMRC'.

The consultation proposes a new penalty for those who enable tax avoidance and changes to the existing penalty legislation which applies to those who use avoidance.

The proposals are to introduce *'sanctions for those who design, market or facilitate the use of tax avoidance arrangements which are defeated by HMRC and to change the way the existing penalty regime works for those whose tax returns are found to be inaccurate as a result of using such arrangements.'*

The government is seeking views on proposals for sanctions against those who enable or use tax avoidance arrangements which are later defeated.

Advisory fuel rates for company cars

New company car advisory fuel rates have been published which take effect from 1 September 2016. The guidance states: *'You can use the previous rates for up to one month from the date the new rates apply'*. The rates only apply to employees using a company car.

The advisory fuel rates for journeys undertaken on or after 1 September 2016 are:

Engine size	**Petrol**	**Engine size**	**LPG**	**Engine size**	**Diesel**
1400cc or less	11p	1400cc or less	7p	1600cc or less	9p
1401cc - 2000cc	13p	1401cc - 2000cc	9p	1601cc - 2000cc	11p
Over 2000cc	20p	Over 2000cc	13p	Over 2000cc	13p

The guidance states that the rates only apply when you either:

- reimburse employees for business travel in their company cars
- require employees to repay the cost of fuel used for private travel

You must not use these rates in any other circumstances. If you would like to discuss your car policy, please contact us.

Client Focus- Nick Kantharia owner of Surface Medic - Salisbury

This month, we catch up with Nick Kantharia, a Compass Accountants client, and the owner of a 'Surface Medic Franchise', based in Salisbury.

Having made the decision to go into business on his own, Nick Kantharia saw an opportunity earlier this year, and decided to launch his own franchise of 'Surface Medic' the business that provides solutions in invisibly repairing any surface.

Nick is now equipped with state of the art equipment and tools including polymer based resin fillers, colour matching systems and multi material kits along with a whole host of other tools which enable him to travel to projects to provide the perfect repair and finish on practically any surface.

Surface Medic itself is a relatively new business, having been launched under its parent organisation, 'Service Solutions Group' established since 1980. The service Surface Medic offers is unique in that its experts use high tech products with state of the art techniques to repair practically any surface at all. Rather than replace items with damaged surfaces, Surface Medic repairs damage perfectly, at a fraction of the cost and without any of the extra hassle a replacement would cause. The organisation has a national scope, covering the whole of the UK and Northern Ireland Nick's region is Salisbury and Andover.

After investing in the Surface Medic franchise Nick undertook a period of training to gain the knowledge of repairing a vast array of surfaces.

He explains, "We are able to permanently fix cracks, scratches, holes and other types of damage in materials including wood, laminates, glass, plaster work, tiles, plastics, bricks and stone. We cover all types of surface in all environments from domestic houses, to commercial and industrial buildings. One area that we are especially focusing on at the moment is the construction industry. Often, in the final phases of construction, new buildings can have surface issues on floors, walls, doors, windows, kitchen work-tops, kitchen sinks, ceilings practically any surface you can think of in a house. Using our services, the construction firms are able to put the final touches on these surfaces that need repairing prior to completing the transaction or house rather than replacing any large expensive items."

"It's been exciting getting a new business moving, as the franchise is relatively new itself too, and so it's a time of expansion and change. Looking forward, I hope to later be in a position where I'll have two or three vans covering a larger region."
Having previous knowledge of Compass, Nick had already chosen which accountants to use when he decided to go into business "I was already familiar with Compass and knew that they were an accountancy firm I could trust and I've not been wrong! It was an easy decision for me to get them on board and they've been very helpful with getting the business moving in its initial stages. I wouldn't hesitate to recommend them to anyone!"

If you have a surface you would like repaired or if you have any questions for Nick, please email him on nkantharia@surfacemedic.co.uk or visit the Surface Medic website on www.surfacemedic.co.uk or alternatively call 07740 854421 or 01722 580480

Tax Diary
September/October 2016

1 September 2016	Due date for Corporation Tax for years ended 30 November 2015.
19 September 2016	PAYE and NIC deductions due for month ended 5 September 2016. (If you pay your tax electronically the due date is 22 September 2016)
19 September 2016	Filing deadline for the CIS300 monthly return for the month ended 5 September 2016.
19 September 2016	Due date for CIS tax deducted for the month ended 5 September 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 of 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.

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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