15-16 Tax Workshop

for

Business Ladies of Knaresborough

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What are the deadlines for the 15-16 Tax Year?

The 15-16 Tax Year begins on 6th April 2015 and ends on 5th April 2016.

- If you submit a paper tax return, HMRC must receive it by 31st October 2016.
- If you submit your tax return online, HMRC must receive it by 31st January 2017.
- Any tax owed for the 15-16 tax year must be paid by 31st January 2017.

TIP: Complete and submit your tax return as soon as possible after 5th April 2016. Then you know exactly what your tax liability is well in advance of having to pay it, and you can file your paperwork away.

PITFALL: Many people are "caught out" by Payments On Account.

What are Payments On Account?

"Payments On Account" are advance payments towards your next tax bill. You have to make two payments on account every year unless:

- your last self assessment bill was less than £1,000
- you have already paid more than 80% of all the tax you owe eg. through your tax code

Each payment is half of the previous year's tax bill. The payments are due by 31st January and 31st July each year. If you still have tax to pay after you have made your payments on account, you must make a "balancing payment" by 31st January of the next year. Alternatively, if your payments on account mean you have overpaid, you should receive a refund.

EXAMPLE: Your bill for 15-16 tax year is £2,000. By 31st January 2017 you must pay £2,000 (for 15-16) plus £1,000 (towards 16-17), so £3,000 in total. Another £1,000 (towards 16-17) would become due on 31st July 2017.

Your bill for 16-17 tax year is £2,500. You have already paid £2,000 in advance, so your balancing payment due on 31st January 2018 is £500.

What are the Penalties?

There are three types of penalty:

1. **Late Filing Penalty**. You will be charged a penalty of £100 if your tax return is up to 3 months late. You will have to pay more if it is later, and these penalties will be charged even if there was no tax to pay.

2. **Late Payment Penalty.** You will be charged 5% of tax unpaid after 30 days, another 5% of tax unpaid after 6 months, and another 5% of tax unpaid after 12 months. Interest is also charged on late payments, including late "payments on account".

3. **Penalty for failing to notify liability to pay tax.** If you have a new source of income on which there is a tax liability, you should notify HMRC by 5th October following the end of the tax year in which the income arose. If HMRC is not notified in time, "failure to notify" penalties can apply. These are based on the tax due and unpaid at the due date.

TIP: If extraordinary circumstances prevent you from meeting deadlines, keep any evidence you can and inform HMRC as soon as possible.

Can Penalties Be Appealed?

You can appeal to HMRC against a penalty for:

- sending in your tax return late
- paying tax late
- not paying enough tax
- failing to keep adequate records
- filing an incorrect return

Your penalty will be cancelled or amended if you have a "reasonable excuse", for example: the death of a partner or close relative just before the deadline, you had an unexpected hospital stay or a serious illness, computer or software failure just before or while you were preparing your tax return, or fire, flood or theft prevented you from completing your tax return.

What won't count as a reasonable excuse: you relied on someone else to send your return and they didn't, your cheque bounced or payment failed because you didn't have enough money, you found the HMRC system too difficult to use, or you didn't get a reminder from HMRC.

Top Ten Worst Excuses!

HMRC has recently revealed a list of the ten worst excuses which were used in appeals against penalties for late submission of tax returns. All of these were unsuccessful!

1. My tax papers were left in the shed and a rat ate them.
2. I'm not a paper-orientated person, I always relied on my sister to complete tax returns but we have now fallen out.
3. My accountant has been ill.
4. My dog ate my tax return.
5. I will be abroad on deadline day with no internet access so will be unable to file.
6. My laptop broke, so did my washing machine.
7. My niece had moved in – she made the house so untidy I could not find my log-in details to complete my online return.
8. My husband ran over my laptop.
9. I had an argument with my wife and went to Italy for five years.
10. I had a cold which took a long time to go.

How Is Tax Calculated for the Self-Employed?

If you are self-employed, you will pay income tax, Class 2 National Insurance contributions if your profit is £5,965 or more, and Class 4 National Insurance contributions if your profit is £8,060 or more per year.

To work out your taxable profits, you can choose to record income and expenses in either of the following ways:

- Cash Basis Accounting – record income when it actually comes in and expenses when they go out of your business. You can only use this method if your turnover is less than the VAT threshold (currently £82,000).
- Traditional Accounting (Accruals basis) – record income when you invoice your customers and expenses when you receive a bill.

Cash Basis is a simpler method to use. Equipment, including vans, is an allowable expense, so only cars are eligible for capital allowances. Any losses you make can't be set off against other income. If you have a loan or overdraft and the interest is more than £500, you will not be able to deduct more than this from your profits. If your business deals with a lot of stock, Cash Basis may not be the best scheme for you.

What Expenses are Allowable?

If you are self-employed, your business will have running costs. You can deduct some of these costs to work out your taxable profit as long as they are allowable.
These can include:

- Office costs eg. stationery or phone bills
- Travel costs eg. fuel, parking, train or bus fares
- Clothing expenses eg. Uniform, protective clothing (but not everyday clothing)
- Staff costs eg. Salaries, sub-contractor costs
- Things you buy to sell on eg. Stock, raw materials
- Financial costs eg. Insurance, bank charges
- Costs of business premises eg. heating, lighting, business rates
- Advertising or marketing eg. website costs

Any money drawn from the business for personal use is not an allowable expense.

If you use Traditional Accounting, you can claim Capital Allowances when you buy something which you keep to use in your business eg. equipment, machinery, business vehicles. If you use Cash Basis, Capital Allowances are only claimed for cars.

What If Something Is Used For Both Personal & Business Reasons?

You can claim expenses for the business part of the cost only. For example, your mobile phone bills for the year total £450. Of this, £200 was spent on personal calls and £250 was spent on business calls. You can claim £250 as a business expense.

If you work from home, you may be able to claim a proportion of your costs for things like:

- Heating
- Electricity
- Council Tax
- Mortgage Interest or rent
- Internet or telephone use

You will need to find a reasonable method of dividing your costs, perhaps by the number of rooms you use for the business, or the amount of time you spend working from home.

You can avoid using complex calculations to work out your business expenses by using Simplified Expenses if you want to. These are flat rates that can be used for vehicles, working from home or living on your business premises.

How Do Simplified Expenses Work?

Simplified Expenses can be used by Sole Traders and Partnerships that do not have companies as partners. They cannot be used by Limited Companies.

For vehicles, you can use a flat rate for mileage instead of actual running costs. The rate for cars is 45p per mile for the first 10,000 miles in the year, and 25p per mile for any mileage over 10,000 miles. You must keep a log of your mileage.

If you work more than 25 hours a month from home, you can claim a flat rate instead of a proportion of your utility bills as follows; 25-50 hours is £10 per month, 51-100 hours is £18 per month and 101 or more hours is £26 per month. You should keep a log of hours worked.

If you live at your business premises, you calculate the total expenses for the premises. Then use the flat rate to subtract an amount for your personal use of the premises, based on the number of people living on the premises, and claim the rest as your business expenses. For 1 person the flat rate is £350 per month, for 2 people it is £500, and for 3 or more people it is £650 per month.

How Do Actual Expenses Work?

If you are going to use actual expenses, rather than simplified, there are some points to note regarding the treatment of different kinds of expense.

• Office, property & equipment: claim items you would normally use for less than two years as allowable expenses. For equipment you keep to use in your business for longer, eg. computers, you claim Capital Allowances. This rule applies to computer software, unless you make regular payments to renew the licence, then it is claimed as an expense even if you will use it for more than two years.

Business premises: you can't claim expenses or allowances for buying building premises. You can claim expenses for repairs and maintenance of business premises and equipment. For alterations to install or replace equipment, claim Capital Allowances.

• Car, van & travel: you can claim for vehicle insurance, repairs and servicing, fuel, parking, hire charges, vehicle licence fees, breakdown cover, public transport, hotel rooms and meals on overnight business trips. You can't claim for any non-business driving or travel costs, fines, or travel between home and work.

If you buy a vehicle for your business, you can claim this as a Capital Allowance. If you are using Cash Basis accounting , you can claim Capital Allowances for a car, as long as you are not using Simplified Expenses.

How Do Actual Expenses Work?

- Staff Expenses: you can claim for employee and staff salaries, bonuses, pensions, benefits, agency fees, subcontractors and employer's National Insurance. You can't claim for carers or domestic help.
- Reselling Goods: you can claim for goods for resale, raw materials, direct costs of producing goods. You can't claim for any goods or materials bought for private use, or for depreciation of equipment.
- Legal & Financial Costs: you can claim for accountants or solicitors hired for business reasons, professional indemnity insurance premiums. You can't claim for fines for breaking the law. You can't claim for legal costs of buying property or machinery, if you use Traditional Accounting these can be claimed as Capital Allowances.

You can claim for bank and credit card charges, interest on business loans, hire purchase interest, and leasing payments. If you are using Cash Basis, you can only claim up to £500 for these. You can't claim for repayments of loans, overdrafts or finance arrangements.

When a customer doesn't pay you, you can claim for bad debts if you are using Traditional Accounting as long as the amount of money has been included in your turnover, and you will not be able to recover the debt. If you are using Cash Basis, you can't claim for bad debts because you have not received the money from your debtors, and you only record income on money you have actually received.

How Do Actual Expenses Work?

• Marketing, Entertainment & Subscriptions: you can claim for advertising, free samples, website costs, trade or professional journals and trade body or professional organisation membership if related to your business. You can't claim for entertaining clients, suppliers and customers, event hospitality, payments to political parties or donations to charity.

This is not an exhaustive list of expenses. Each business is different, therefore has different costs associated to it.

You must keep records of all of your business expenses as proof of your costs. You don't need to send them to HMRC when you submit your tax return, but you must keep your records for at least 5 years after the 31st January submission deadline of the relevant tax year. So records for the 15-16 tax year must be kept until 31st January 2022.

Is it Different for a Director of a Ltd Company?

There are differences if you run a Limited Company. The main difference to bear in mind is that the company is classed as a separate entity to yourself.

- The company must file a Company Tax Return and pay Corporation Tax. The rate of Corporation Tax is currently 20% payable on the taxable profits of the company. Corporation Tax usually becomes due 9 months and 1 day after the company's year end.
- A Company Director should register for self-assessment and send a personal tax return every year, unless the company is a non-profit organisation and the Director received no pay or benefits.

As a Director of a Limited Company, you can take money out of the Company in three ways:

- If you want the Company to pay you salary, expenses or benefits, you must register the company as an employer and take Income Tax and National Insurance from your salary, and pay these to HMRC along with employers National Insurance contributions. These are allowable expenses against the profit of the business, so Corporation Tax will be reduced accordingly.

Is it Different for a Ltd Company?

• Dividends – a dividend can be paid to shareholders if the business has made enough profit. Your company cannot pay out more in dividends than it's available profits from current and previous financial years. Dividends are classed as an appropriation of profit, not as an expense of the business. Therefore they cannot be deducted from profit when calculating the Corporation Tax.

•Director's Loan – if you take more money out of the company than you have put in, and it isn't salary or dividend, it is called a Director's Loan. You must keep a record of any money you pay into, or take out of the company. You or your company may have to pay tax on Director's Loans, depending on how and when the loan is settled.

A Limited Company cannot use Cash Basis to prepare the Company accounts, they must use the traditional accruals basis.
Simplified Expenses cannot be used by Limited Companies.
Accounting records normally need to be kept for at least 6 years from the end of the last company financial year they belong to.

What Are the 15-16 Rates & Allowances?

The standard Personal Allowance is £10,600. This is the amount that you do not have to pay tax on. It is smaller if your income is over £100,000.
Income Tax rates are:

Tax Rate	Taxable Income Above the Personal Allowance
Basic Rate 20%	£0 to £31,785 People with the standard Personal Allowance start paying this rate on income over £10,600
Higher Rate 40%	£31,786 to £150,000 People with the standard Personal Allowance start paying this rate on income over £42,385
Additional Rate 45%	Over £150,000

Savings interest is automatically calculated at 20%. If you're on a low income you may be able to get tax-free interest, or some of the tax back.
If you own shares in a company, and you're a Higher or Additional Rate taxpayer, you have to pay extra tax on dividends.

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