Green&Co
ACCOUNTANTS AND TAX ADVISORS

Top planning tips for the year end

With the end of the 2018/19 tax year fast approaching, now is a good time to review your finances to ensure you are making full use of the available allowances and minimising your tax liability.

Personal planning

Maximising the personal allowance

The basic income tax personal allowance (PA) for an individual is set at £11,850 for 2018/19 (although this allowance is restricted where an individual's adjusted net income exceeds £100,000). In order to make the most of allowances across the family, if one spouse has little or no income it may be worth transferring income to them. However, it is important to bear in mind the settlements legislation relating to income shifting, and to ensure that any transfer is an outright gift.

Considering the Marriage Allowance

The Marriage Allowance may benefit some married couples where one spouse earns less than the PA and the other spouse is not a higher or additional rate taxpayer. For 2018/19, up to £1,190 can be transferred to the lower earner, helping to reduce a couple's overall tax liability by up to £238.

Making the most of tax-free savings

The annual ISA allowance means that you can save up to £20,000 tax-free for 2018/19. There are a variety of different types of ISA to choose from.

Increasing contributions into your pension scheme will also provide tax relief – this is restricted to the higher of £3,600, or the amount of UK relevant earnings. Additionally, contributions in excess of the annual allowance of £40,000 will generally be taxable.

All payments must be made before 6 April 2019.

Business planning

Utilising capital allowances

Most businesses can claim an Annual Investment Allowance (AIA) on expenditure on most types of plant and machinery (except cars). In the 2018 Autumn Budget, Chancellor Philip Hammond announced an increase in the AIA from £200,000 to £1 million, applying to expenditure incurred from 1 January 2019 to 31 December 2020. Complex calculations may apply to accounting periods which straddle these dates. Please contact us for advice on making the most of the AIA.

Extracting profits

The Dividend Allowance reduced to £2,000 in April 2018, so the question of whether it is better to take a salary/bonus or a dividend requires consideration. Dividends are taken after corporation tax has been calculated, while a salary is taken before corporation tax is deducted.

On the other hand, national insurance is due on any salary taken, which can be up to 25.8% in combined employer and employee contributions.

Other ways to extract profit from your business might include considering incorporation if your business is currently unincorporated, and making the most of tax-free allowances, such as mileage payments.

For more year end planning tips, please contact us.

THE BOTTOMLINE

Issue 3 March 2019

The new Structures and Buildings Allowance

In the 2018 Autumn Budget, Chancellor Philip Hammond announced a new capital allowance, the Structures and Buildings Allowance (SBA).

The new SBA gives relief for expenditure on certain structures and buildings. Since the abolition of the Industrial and Agricultural Buildings Allowances, no relief has been available for most structures and buildings. The SBA addresses the gap, and is intended to encourage investment in construction for commercial activity.

Relief is given on eligible construction costs incurred on or after 29 October 2018. Where a contract for the physical construction work was entered into before this date, relief is not available. The rules are subject to consultation, but the broad proposals are outlined below.

An overview of the rules

The SBA will be available for new structures and buildings intended for commercial use, and the improvement of existing structures and buildings, including the cost of converting or renovating existing premises to qualifying use.

Relief will be available for businesses chargeable to income tax and companies chargeable to corporation tax. It will be limited to the original cost of construction or renovation, and will be spread over a fixed 50-year period at an annual flat rate of 2%, regardless of changes in ownership.

On disposal of a relevant asset, the purchaser will continue to claim the annual allowance of 2% of the original cost, provided the asset continues to be used for a qualifying activity. There will be no balancing adjustments on sale for the vendor. For chargeable gains purposes, the allowable cost of the asset will be reduced by the total amount of relief claimed.

Relief for the SBA will be available from the date the structure or building is brought into use for the first time for a qualifying activity. UK and overseas structures and buildings will be eligible where the business is within the charge to UK tax.

Special provisions will apply for leasing transactions. Where an asset is leased, both lessor and lessee may be able to claim the SBA for qualifying expenditure that they themselves incur on construction works. However, special rules will apply where the grant of a lease is substantially no different from the sale of the property interest. These rules may result in the lessee becoming entitled to the attributable SBA.

Qualifying activities

Only certain expenditure will qualify. The structures or buildings must be brought into use for qualifying activities. These include trades, professions or vocations, and certain UK or overseas properties businesses – essentially commercial property lettings as residential property is excluded. The types of structures and buildings covered awaits final clarification, but is expected to include: offices; retail and wholesale premises; walls; hotels and care homes; and factories and warehouses.

Exclusions and apportionment

Expenditure on land or residential property or other buildings functioning as dwellings will not be eligible. What constitutes a dwelling is to be clarified. Work spaces forming an integral part of a dwelling, such as a home office, will not be eligible. With mixed use, such as between commercial and residential units in a development, relief will be apportioned.

Please contact us for further guidance.

Business and Tax Round-up

The new Welsh rates of income tax

6 April 2019 sees the introduction of the new Welsh Rates of Income Tax (WRIT), which will be payable by individuals whose main residence is in Wales.

Currently, all income tax from Wales is paid to the UK government. From 6 April 2019, a proportion of that income tax will be paid directly to the Welsh government. The UK government will reduce the basic, higher and additional rates of income tax by 10p for Welsh taxpayers, and the Welsh government will set the three WRIT. These will then be added to the UK rates.

The Welsh Assembly has agreed the government's proposal to set the first WRIT at 10p, meaning that for 2019/20 Welsh taxpayers will pay the same income tax as those in England and Northern Ireland.

Income tax will continue to be collected via PAYE and self assessment. However, Welsh taxpayers will have a new 'C' prefix added to their tax code.

The personal allowance and tax rates on dividends and savings income will continue to be set by the UK government for all UK taxpayers, regardless of where they live in the UK.

Taxpayers are being advised to ensure that they keep HMRC informed of any change of address.

Making Tax Digital for VAT – exemptions and deferrals

Making Tax Digital for VAT (MTD for VAT) is set to come into effect from 1 April 2019 for businesses whose turnover is greater than the current VAT registration threshold of £85,000. However, there are deferrals and exemptions to this as listed below.

Firms that fall into the categories below are exempt from MTD for VAT:

- Businesses run by practicing members of a religious society or order with beliefs incompatible with the regulation's requirements

Entrepreneurs' Relief: an update

Entrepreneurs' Relief (ER) is available to taxpayers on the disposal of the whole or part of their business. ER means that you pay capital gains tax (CGT) at a rate of 10% rather than 20%, subject to a lifetime limit of £10 million.

Following the 2018 Autumn Budget, new conditions have been introduced to ensure shareholders benefitting from ER have a minimum economic stake in the company. According to HMRC, 'it is designed to support and encourage investment and means that entrepreneurs can keep more of the rewards when their business is successful'.

Who can claim ER?

ER is available to company directors and employees meeting certain conditions, as detailed later. It is also available to sole traders or partners selling or giving away all or a certain part of their business.

The disposal of 'associated' assets, such as land and buildings used by a company or partnership but owned by an individual, may also attract ER if the individual chooses to leave the company or partnership.

Qualifying company

ER is available on the gains made on the disposals of shares and securities in a trading company or the holding company of a trading group. A trading company is defined as one 'carrying on trading activities whose activities do not include, to a substantial extent, activities other than trading activities'.

Trading activities are those activities which carry on a trade or profession by buying and selling goods or services with a view to making a profit or surplus.

On the other hand, non-trading activities are those undertaken by a company that may invest, for example in properties or shares.

Conditions

In order to qualify for ER, the taxpayer must be an employee or officer of the company and hold at least 5% of the ordinary share capital, and 5% of the associated voting rights.

In addition to the existing tests, a new test is introduced whereby the shareholders must also be entitled to at least 5% of the company's distributable profits and 5% of net assets on the winding up of the company.

However, where the taxpayer cannot demonstrate their entitlement to the profits and assets of the company, a taxpayer can use an alternative test. This is that, in the event of a disposal of the ordinary share capital of the company (i.e. the company being sold), the taxpayer is entitled to 5% of the disposal proceeds.

The above conditions must be satisfied by the shareholders for a period of 12 months until the date of disposal or cessation of the trade. For disposals on or after 6 April 2019, the minimum period throughout which the conditions must be met is increased to two years.

In another change new legislation gives relief where an expanding business raises additional finance by means of the issue of new shares for cash, but as a result, an individual's shareholding is 'diluted' – falling below the 5% needed to claim ER.

For new investment taking place on or after 6 April 2019, shareholders will be able to make an election, treating them as if they had disposed of their shares and immediately reacquired them at market value just before dilution. To avoid an immediate CGT bill on this deemed disposal, a further election can be made to defer the gain until such time as the shares are actually sold. ER can then be claimed in its current form.

The lifetime limit of £10 million remains intact. Additionally, taxpayers continue to benefit from an annual exempt amount of £12,000 in 2019/20, on which CGT is not due.

Drawbacks

There are situations where shareholders may not be able to claim ER:

- Directors should remain in office up to the date of disposal of their shares to avoid jeopardising an ER claim
- If a company goes from a trading company to an investment company, shareholders of the company will no longer qualify for ER.

If you are thinking of making a disposal of shares in your company, please get in touch to find out if you qualify for ER.

- Businesses subject to an insolvency procedure
- Those satisfying HMRC that, for reasons of age, disability, remoteness of location or for any other reason, it is not reasonably practicable for them to use digital tools to keep business records in order to submit returns.

Furthermore, HMRC's MTD for VAT guidance was updated in October 2018, outlining a significant deferral of the initiative for a small group of taxpayers with 'more complex' requirements. They will be given an additional six months to prepare for MTD for VAT, and will therefore not be mandated to use the system until 1 October 2019.

The deferral applies to: not-for-profit organisations that are not set up as a company; trusts; VAT divisions; VAT groups; local authorities; public corporations; and traders based overseas. Public sector entities required to provide additional information on their VAT return, those who must make payments on account, and annual accounting scheme users are also covered by the deferral.

Tax Tip

Forming a limited company

If you are self-employed you may want to consider forming a limited company. A limited company can be an effective way to shelter profits, especially if immediate access to them is not required.

Profits paid out as salaries, dividends or bonuses are often liable to the top tax rates, whereas profits kept in the company will be taxed at 19%.

Funds retained by the company can be used to buy assets or provide for pensions, both of which can be eligible for tax relief.

We can help you set up a company – please contact us for more information.

New rules for personal service companies

The 2018 Autumn Budget announced changes to the 'off-payroll' working (or 'IR35') rules, which are set to apply from April 2020. This may affect you if you work on a contract through a personal service company (PSC) in the private sector, or hire or place such workers. Similar rules already apply in the public sector.

The IR35 rules aim to prevent the avoidance of tax and national insurance contributions (NICs), where an individual works for a client through an intermediary (usually a PSC), and the use of the intermediary means that they avoid being taxed as the client's employee.

Currently, responsibility for deciding whether the IR35 rules apply to a private sector contract lies with the intermediary. If IR35 applies, the intermediary also has to account for PAYE and NICs on the fees received.

From 6 April 2020, responsibility for deciding employment status is set to pass from the intermediary to the party engaging the worker. If IR35 applies, the business, agency or third party paying the intermediary must deduct income tax and employee NICs, and become liable for employer NICs.

HMRC has an online Check Employment Status for Tax (CEST) tool to help decide whether the off-payroll working rules apply to any given contract: www.gov.uk/guidance/check-employment-status-for-tax. The tool can be used by workers, hirers or agencies placing a worker. HMRC will stand by the result, unless a compliance check finds that information supplied was inaccurate.

The service can be used anonymously and will not store any personal details or findings. However, the result can be printed, which is essential. If there are changes to the working arrangement, we would recommend that you run the new details through the check again.

It is important to note that problems regarding employment status do arise in practice, even when the tool is used, and HMRC has stated that it is committed to improving CEST's usefulness.

Some aspects of the forthcoming change also remain to be clarified, and government consultation is ongoing. The change will affect employing businesses which are classed as 'medium and large businesses', but not 'small' ones; the definition of small will be based on the Companies Act 2006 definition of a small company.

The government has issued a welcome assurance that the change is not retrospective. Where someone starts paying employment taxes under IR35 for the first time, or where a business decides that a worker should come within the rules, this will not automatically trigger an enquiry into earlier years.

Reminders for your diary

April 2019

1 Making Tax Digital for VAT is introduced. Most businesses must comply from their first VAT return period starting on or after 1 April 2019.

5 Last day of 2018/19 tax year.

Deadline for 2018/19 ISA investments and pension contributions.

Last day to make disposals using the 2018/19 CGT exemption.

14 Due date for income tax for the CT61 period to 31 March 2019.

19 Automatic interest is charged where PAYE tax, Student loan deductions, Class 1 NI or CIS deductions for 2018/19 are not paid by today. Penalties may also apply if any payments have been made late throughout the tax year.

PAYE quarterly payments are due for small employers for the pay periods 6 January 2019 to 5 April 2019.

PAYE, Student loan and CIS deductions are due for the month to 5 April 2019.

Deadline for employers' final PAYE return to be submitted online for 2018/19.

May 2019

3 Deadline for submitting P46(Car) for employees whose car/fuel benefits changed during the quarter to 5 April 2019.

19 PAYE, Student loan and CIS deductions are due for the month to 5 May 2019.

31 Deadline for forms P60 for 2018/19 to be issued to employees.

June 2019

1 New Advisory Fuel Rates (AFR) for company car users apply from today.

19 PAYE, Student loan and CIS deductions are due for the month to 5 June 2019.

30 End of CT61 quarterly period.

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