2018-19

YEAR END TAX

REVIEW

Capitax Financial Ltd

CHARTERED ACCOUNTANTS | TAX CONSULTANTS | BUSINESS ADVISORS

Devonshire House
582 Honeypot Lane
Stanmore
Middlesex
HA7 1JS

T +44 (0) 20 3475 7727
F +44 (0) 20 8711 6911
E info@capitaxfinancial.com
W www.capitaxfinancial.com

Further enquries
please contact: Samir Shah FCA

Digital destiny

The Government has a long-term goal to digitise the tax system – a project which it refers to as 'Making Tax Digital' (MTD). Many types of tax returns are regularly filed online, and some returns (such as for VAT) have no paper versions. However, for most returns there is a step in the process when a human types figures into an online form.

Under MTD the aim is to eliminate the human-typing step, so the figures which are reported to HMRC can't be mis-typed or missed altogether. HMRC believes that, by allowing a computer programme to gather up all the tax-related data and transmit them directly to HMRC's computer via MTD-enabled software, the errors introduced by humans will be eliminated.

The MTD programme is being introduced tax by tax, and VAT is the first area where manual typing of the return is to be replaced by accounting software. For those with taxable turnover above the VAT registration threshold, VAT returns prepared for periods beginning on and after 1 April 2019 will usually have to be submitted using MTD-enabled software. Some complex businesses have their start date for MTD for VAT deferred until periods beginning on and after 1 October 2019.

HMRC is encouraging all businesses and individuals to interact with it as much as possible online, instead of by phone or paper. Most of the information you need about your personal tax affairs can be found in your online personal tax account. Businesses also each have an online business tax account, which will be a vital part of the MTD process.

Once digital processes are embedded into tax compliance, HMRC will change the filing dates for tax returns so they get the information, and possibly the tax payments, more quickly. For example, the filing and payment deadline for Stamp Duty Land Tax, which purchasers pay when buying property in England or Northern Ireland, will be cut from 30 days to 14 days after the completion date, with effect from 1 March 2019.

However, digitisation is not the only thing you need to consider. The tax reliefs available for specific categories of expenditure have to be claimed within a tight window, such as for the costs of research and development, or for investing in the shares of certain small companies.

We recommend you undertake an annual review of your financial affairs to check if you are paying more tax than you need to, and whether the structures you set up in the past are still appropriate.

Under self assessment, your personal return for 2017/18 must be submitted, and the tax liability settled, by 31 January 2019. Between then and the end of the tax year (5 April 2019) is a good time to assess whether you are as well defended against high tax charges as you can be.

Of course, the personal circumstances of each individual must be taken into account in deciding whether any particular plan is suitable or advantageous – but these suggestions may give you some ideas. We are happy to discuss them with you in more detail. •

‘Making good’ benefits

Where an employee or director receives a benefit from their employer but does not want to be taxed under the benefits legislation, they must ‘make good’ the benefit by reimbursing the employer. Finance (No.2) Act 2017 tightened up the time limits for doing this, so you need to be careful not to miss the deadlines.

It sets 6 July following the tax year as the time limit for the reimbursement of non-payrolled benefits that give rise to a tax liability. This applies for 2017/18 onwards, so we are just coming up to the second year of dealing with this deadline. For 2018/19, reimbursement must be made by 6 July 2019, which ties in with the date for issuing P11Ds.

This measure does not impact existing legislation or dates for making good on payrolled benefits-in-kind. These are:

- by the 5 April (i.e. the end of the tax year)
- except for fuel benefits, when the making good should happen by 1 June following the end of the tax year (i.e. 1 June 2019 for 2018/19)

The new rules (i.e. make good by 6 July to avoid a P11D issue for non-payrolled benefits) specifically exclude beneficial loans, including overdrawn directors’ loan accounts. These produce a benefit if the loan exceeds £10,000 at any point in the tax year, but this benefit can be avoided if interest at least equal to the Official Rate is reimbursed, where the borrower is contractually obliged to pay it. The Official Rate for 2018/19 is 2.5%.

Despite the exclusion for beneficial loans, people would normally try to make reimbursement by the 6 July anyway, to avoid any doubt as to whether a benefit arises at the time the P11D is being prepared. ●

ACTION POINT!
If you want to avoid a taxable benefit, make sure that reimbursement is made within the statutory time limits.

Interesting savings

All interest you receive is taxable, unless it is from an ISA, but banks and building societies no longer deduct tax from interest paid to individuals. However, for most taxpayers the rate of tax payable on that interest is 0%, so no tax is in fact due.

This zero tax rate applies where your savings income falls within your Savings Rate Band (SRB), which is worth up to £5,000, or within your Personal Savings Allowance (PSA), which is worth £1,000 for basic rate taxpayers or £500 for higher rate taxpayers. Any savings income which falls outside the SRB or PSA is taxed at your marginal Income Tax rate (20%, 40% or 45%).

The available SRB depends on how much other taxable non-savings income you receive, such as salary, pensions, trading profits or rent. If you can control the type of income you receive you can reduce the total tax you pay for the year. ●

ACTION POINT!
Review your mix of income to maximise your Savings Allowance for 2018/19.

Example
Harry has £75,000 of capital invested at 2% so he receives £1,500 of interest. After deducting his Personal Allowance from his salary of £16,850 he has £5,000 of taxable income that entirely eats up his SRB. He is a basic rate taxpayer, so has a PSA of £1,000.

2018/2019	Non savings	Savings	Tax payable
Salary/interest	£16,850	£1,500	
Personal Allowance	(11,850)		
Taxed @ 20%	5,000		1,000
PSA		(1,000)	
Taxed @ 20%		500	100
Total tax payable			1,100

Harry lends £75,000 to his company, which pays him interest at a commercial rate of 7% under a written agreement. The company uses the money for development. Harry also reduces his salary to £13,100, so that his total income is still £18,350. Reducing his salary frees up some starting rate band to set against his interest income – see below.

2018/2019	Non savings	Savings	Tax payable
Salary	£13,100		
Interest		5,250	
Personal Allowance	(11,850)		
Taxable @ 20%	1,250		250
		5,250	
SRB (5,000-1,250)		(3,750)	
PSA		(1,000)	
Taxable @ 20%		500	100
			350

Harry’s tax bill has been reduced from £1,100 to £350 on the same level of income. The company must deduct tax at 20% from the interest it pays but this can be reclaimed by Harry.

Max out your state pension

If you are yet to reach State Pension Age (SPA), you will need to have accrued 35 complete years of National Insurance Contributions (NIC) to receive the full state pension. To receive any UK state retirement pension, you need at least ten complete NIC years.

You can check how much state pension you are due to receive through your personal tax account on gov.uk. We can help you with this.

It is possible to plug gaps in your NIC record by paying voluntary class 2 or class 3 NIC. This payment generally needs to be made within six years of the gap year, but there are a number of exceptions which extend that period.

You may also qualify for NI credits for some years if you were claiming state benefits, Child Benefit or were a foster carer. The NI credits were not always applied automatically, so it’s worth checking your own NIC record.

If you have already paid enough NIC to get the full state pension, you may consider taking further rewards from your company in other forms, such as dividends or private pension contributions. ●

ACTION POINT!
Consider topping up your NIC record by claiming NIC credits or paying more contributions.

Give and save

Giving to charity under Gift Aid can result in a win/win for both the donor and the charity.

Making a Gift Aid donation will reduce your tax bill for the year in which the donation is made if your total income is above the 40% threshold (£46,350 for 2018/19). Taxpayers resident in Scotland can save tax with Gift Aid donations if their total income, including earnings, is above the 21% threshold (£24,000 for 2018/19). Alternatively, you can shift the tax benefit of some or all of that gift back one year by telling HMRC on your tax return. This can be useful if your marginal tax rate was higher last year than in the current tax year.

The gift to be carried back must be made before you file your tax return for the earlier tax year. Say you make a Gift Aid donation of £2,000 on 21 December 2019. If you submit your 2018/19 tax return after that date (it's due by 31 January 2020) you can include a claim in that return to carry back up to £2,000 of the donation you made on 21 December 2019, which will reduce your 2018/19 tax liability.

Gift Aid can reduce your income used to calculate the clawback of Child Benefit (income over £50,000) and the reduction in Personal Allowance (income over £100,000). It can also increase your higher rate or additional rate threshold, which determine whether you receive a Personal Savings Allowance of £1,000, £500, or nil.

To make a valid Gift Aid donation, you must declare that you will pay sufficient tax to cover 25% of the value of your gift in the year the gift is made. If you give £800 under Gift Aid, you must pay Income Tax and/or Capital Gains Tax of at least £200. ●

ACTION POINT!
Do you want to make charitable donations before you complete your tax return?

Buyers beware

Buying property is always complicated, but now you must think about the different taxes you will pay on the purchase of properties located in Wales, Scotland, or the rest of the UK.

In Wales, you will pay Land Transaction Tax (LTT), which starts at 3.5% for residential properties costing over £180,000 and has a top rate of 12% on the portion of the property price which exceeds £1.5 million.

In England or Northern Ireland you will pay Stamp Duty Land Tax (SDLT). This starts at 2% for residential properties worth over £125,000, with a top rate of 12% on properties acquired for £1.5 million or more. However, first time buyers can benefit from a 0% rate on the first £300,000 for properties costing no more than £500,000.

In Scotland, Land and Buildings Transaction Tax (LBTT) starts at 2% for residential properties costing over £145,000. However, first time buyers are charged 0% on the first £175,000, with no upper limit on the property value.

All three countries have imposed a 3% supplementary charge on the value of residential property purchased by a company or as a second home, where the value of the property exceeds £40,000. However, Scotland is planning to increase this supplementary charge to 4% from 25 January 2019. The detailed rules for the supplementary charge differ in each country. ●

ACTION POINT!
Check the taxes to be payable on purchase before exchanging contracts to buy property.

Tax-free rent

When you let rooms in your own home as residential accommodation, you can receive the rent tax-free if it falls within the limits for rent-a-room relief. This relief is currently capped at rents of £7,500 per year. Where more than one person receives the rent from the property, each person has a tax-free exemption for rent of £3,750.

The conditions for rent-a-room relief stipulate that you must occupy the property as your main home – this relief can't cover income from a holiday home or buy-to-let property. Also, the accommodation must be used for residential purposes, not as an office.

If you let out land or buildings which don't qualify for rent-a-room relief, such as a store room, office, or even your driveway, the income could be covered by the £1,000 property income allowance. You can't use this allowance against rent paid by your own company, a company you work for, or one which your spouse is associated with.

If either rental income exceeds the relevant limit, it must be declared on the your tax return, along with any related expenses. However, the relevant limit may be claimed as deemed expenses, if this is higher than actual expenses.●

ACTION POINT!
Can you claim rent-a-room relief or the property allowance?

Innovate to accumulate

Companies which invent new production methods or products can claim enhanced tax relief for the Research and Development (R&D) costs. Small and medium sized companies can claim 230% of qualifying R&D costs, and a 14.5% payable tax credit if this extra deduction results in a loss!

This is a very attractive relief and it's really quite easy to claim. You can ask HMRC for an advance assurance that your company, and its R&D projects, will meet the requirements for R&D tax relief. We can help you do this.

The main benefit of advance assurance is that HMRC won't raise further questions about your initial R&D claim, and for R&D claims submitted for the next two accounting periods.

A company can apply for Advance Assurance if it:

- hasn't claimed R&D tax relief before
- has an annual turnover of £2 million or less
- has fewer than 50 employees

You need to apply for R&D tax relief within two years from the end of the accounting period in which the R&D costs were incurred. So, if your company has been innovative in the recent past, don't delay your application for R&D tax relief! ●

ACTION POINT!
Check the R&D expenses for which your company can claim an enhanced deduction.

Excited about electrics

If you are considering acquiring a new company car, take account of the changing tax incentives for electrics.

The taxable benefit for having an electric company car is currently calculated at 13% of its list price when new, but this will rise to 16% on 6 April 2019. Strangely, from 6 April 2020 the taxable benefit for driving an electric company car will drop to 2% of its list price.

Where a business buys a new electric car it can claim 100% of the cost as a capital allowance in the year of purchase, if the car is acquired before 1 April 2021. So 2020/21 will be the sweet spot for acquiring electric company cars.

If a business installs electric vehicle charging points before 31 March 2023 it can claim 100% of the cost in the year.

Where employees are permitted to freely charge up electric vehicles at work, there is no taxable benefit for the use of that free electricity. Drivers of electric company cars who pay for their own charging can claim a tax-free allowance from their employer of 4p per business mile driven.

Drivers who use their own electric cars for business journeys can claim the normal mileage rates of 45p per mile for the first 10,000 miles and 25p for any additional business miles driven in the tax year. ●

ACTION POINT!

Consider the tax incentives for electric company cars in future years.

Payroll

Most employees, with very limited exceptions, must be paid the National Minimum Wage (NMW) or the National Living Wage (NLW). These hourly rates vary according to the age of the worker, so it's crucial to keep a sharp eye on the birthdays of your younger workers to ensure they are paid at the right rate for their age band.

The second trap you can fall into is to ignore some of the hours worked. All overtime hours, time spent training, or standing in line for security checks, must be counted. Workers who undertake sleep-in shifts must be paid the NMW for the whole shift.

All the NMW rates will increase for the first pay period that begins on or after 1 April 2019, and it is important to get these pay calculations exactly right. Tips and gratuities can never be counted towards the NMW paid.

If you underpay by £100 or more across your whole payroll, HMRC can include your details on a list of employers in default, which is published quarterly.

The penalty for failing to pay the correct amount of NMW can be up to £20,000 per employee. ●

ACTION POINT!

Are you certain your NMW calculations are correct?

A family view

In the UK, everyone is taxed as an individual, but social security benefits, including Tax Credits and Universal Credit, are awarded on the basis of the family's total income. Child Benefit is also withdrawn based on the income of the higher earner of a couple, irrespective of who claimed it.

Families with an unequal distribution of income will often pay more tax than couples who earn just enough each to cover their basic Personal Allowance (£11,850 for 2017/18) and the basic rate band. The thresholds for restricting Child Benefit (£50,000), Personal Allowance (£100,000) and pension annual allowance (£150,000) all operate for the individual, so disadvantage families where the income is concentrated in one person's hands.

Consider the Browns – they have two children and claim Child Benefit. In 2018/19 George Brown earns £88,000 and pays higher rate tax, but Sally Brown has no income. Because George's income is over £60,000, the family's Child Benefit is clawed back from him as a tax charge.

In contrast, John and Joy Green each earn £44,000, so they keep their Child Benefit, and pay less Income Tax as their highest marginal tax rate is 20%. Both Greens make use of their full Personal Allowance and most of their basic rate band.

Roger and Rose are in a worse tax position. Roger's total income is £160,000 and his employer contributes £40,000 into his pension scheme. Roger and Rose have no effective Personal Allowances, as Rose has no income to set her allowance against, and Roger's Personal Allowance is entirely withdrawn as his income exceeds £123,700.

Roger is treated as having income of £200,000 (£160,000 + 40,000) for pension relief purposes. His pension annual allowance is therefore reduced to £15,000, so he suffers an annual allowance charge at 45% on £25,000 of pension contribution.

These examples show that it makes sense to transfer some income from the higher earner to the lower earner in order to take advantage of the Personal Allowance and lower tax bands, and to avoid the clawback of allowances. This is not always easy to do, but the following methods are possible:

- an outright gift of savings and investments which produce taxable income
- putting savings and investments into joint names and sharing the income
- employing the spouse or partner in a business
- taking the spouse or partner into partnership

HMRC can challenge some of these if they think the transfer is not genuine – it's important to take advice to be sure that the plan will work. ●

ACTION POINT!

Can you transfer income to reduce your family's tax and save your allowances?

ISA nice idea

You can save for retirement in a number of ways. The traditional route is via a pension scheme, but you could also use an ISA.

Savers aged under 40 can open a lifetime ISA, and contribute up to £4,000 per year which attracts a 25% bonus from the Government. This bonus is withdrawn if the savings are accessed in circumstances other than used as a deposit for the saver's first home, diagnosis of a terminal illness, or from age 60 onwards.

The lifetime ISA savings are counted as part of the annual ISA allowance of £20,000 per tax year. This allowance can't be carried over to a future tax year, so it's a case of use it or lose it.

ISA savings are not taxed when they are withdrawn, but they don't attract tax relief on the way into the account.

Pension scheme savings are taxed when they are withdrawn, with an exception for the first 25% cash lump sum taken. However, contributions into a registered pension fund will attract tax relief at your highest tax rate, subject to the cap imposed by your annual allowance.

This annual allowance is nominally set at £40,000, which covers contributions made by you and by your employer on your behalf. Any annual allowance not used can be carried forward for up to three years.

Where your total income, including pension contributions made by your employer, tops £150,000, your annual allowance is usually reduced by £1 for every £2 over that threshold, down to a minimum of £10,000.

Your annual allowance is also reduced to £4,000 exactly (not tapered down), if you have accessed your taxable pension savings built up in a money purchase (defined contribution) pension scheme. This is to prevent you from drawing funds from your pension scheme and then putting significant money into the same or another pension scheme, with additional tax relief.

This restricted £4,000 money purchase annual allowance can't be carried forward to future tax years. ●

ACTION POINT!

Review your pension saving plans before 6 April 2019.

Tartan Taxes

If your main home is in Scotland, you pay Income Tax at up to six different rates: 0%, 19%, 20%, 21%, 41%, and 46%, on any of your income which doesn't come from dividends or savings. Your interest, dividends and gains are taxed at the rates and in the tax bands applicable in the rest of the UK.

The Scottish Income Tax bands for 2019/20 have been announced, but these will be subject to agreement by the Scottish Parliament in February 2019.

The Scottish tax bands aren't aligned with the National Insurance Contribution (NIC) thresholds, which leads to some very high marginal rates for Scottish residents, as shown in the table.

The NIC rates will be different for self-employed individuals, and will not apply for those over state pension age. The high marginal rate between £100,001 and £125,000 arises because the Personal Allowance is withdrawn by £1 for every £2 of additional income in that band.

If you plan to take taxable income from your pensions, or a bonus, be very careful not to push your income into a band where it is taxed at 53% or 63.5%. ●

ACTION POINT!
Check what tax rate will apply on any extra income you plan to take.

Employee in Scotland in 2019/20 (subject to confirmation)

Income in band	Scottish tax	NIC	Total rate on band
£	%	%	%
0 – 8,632	0	0	0
8,633 – 12,500	0	12	12
12,501 – 14,549	19	12	31
14,550 – 24,944	20	12	32
24,945 – 43,430	21	12	33
43,431 – 50,000	41	12	53
50,001– 100,000	41	2	43
100,001 – 125,000	61.5	2	63.5
125,001 – 150,000	41	2	43
Over 150,000	46	2	48

Tipping points

When your total income reaches certain thresholds, it tips any extra income into a tax band where a higher rate of tax is charged. This can also mean you lose part or all of your Savings Allowance, Child Benefit, Personal Allowance, or pension annual allowance.

The thresholds quoted below don't apply to taxpayers who live in Scotland, as the Income Tax rates in Scotland are different to those that apply in the rest of the UK (see above). However, the principle is the same. You may be able to save tax by moving income from 2018/19 to 2019/20, or by making certain payments in 2018/19 rather than in 2019/20.

Say you are a 20% taxpayer in 2018/19, but expect that a bonus due in March 2019 will tip you into the 40% band (over £46,350). If you ask your employer to delay paying the bonus until after 5 April 2019, you'll pay the tax on that income later. You will also retain all your £1,000 Savings Allowance, and may still stay out of the 40% band for 2019/20, as the threshold for that year will be £50,000. The main thresholds are (2018/19 figure first, then 2019/20):

- basic Personal Allowance: £11,850 (£12,500) – basic rate tax (20%) starts
- higher rate threshold: £46,350 (£50,000) – 20% rate increases to 40% and Savings Allowance reduces from £1,000 to £500.
- married couples allowance: transfer of 10% of Personal Allowance is possible where the higher earner has income of no more than £46,350 (£50,000)
- Child Benefit clawback: income between £50,000 and £60,000 (no change for 2019/20)
- withdrawal of Personal Allowance: income between £100,000 and £123,700 (£125,000 in 2019/20)
- additional rate: income above £150,000 – 40% rate increases to 45% (no change for 2019/20), Savings Allowance removed, and pension annual allowance reduced

Gift Aid donations and pension contributions can increase the value of most of the above thresholds. You can elect for Gift Aid donations to be treated as being paid in the preceding year.

Income that can easily be moved from year to year includes:

- bonus from your own company
- dividends from your company
- encashments of life assurance bonds
- withdrawal of taxable income from pension schemes in 'drawdown'. ●

ACTION POINT!
Consider moving income or deductions around 5 April 2019.

Planning to sell

For many people the New Year prompts a review of their life goals. If you are wondering whether, or when, you should sell your business, a sensible first step is to form an outline plan for its disposal.

The sale of a successful trading company will generate a capital gain, which would normally be taxed at 20% after deduction of your annual exemption (currently £11,700, increasing to £12,000 for 2019/20).

Entrepreneurs' Relief can reduce your tax rate to 10% on a gain of up to £10m. But there are now five conditions which you must meet for at least 12 months ending with the date of the sale:

- hold at least 5% of the ordinary share capital of the company
- hold at least 5% of the voting rights of the company
- be entitled to at least 5% of the distributable profits available to the equity holders
- be entitled to at least 5% of the assets available for distribution to equity holders on the winding up of the company
- be an employee, director or company secretary of the company or of another company in the same trading group

If you plan to sell your company after 5 April 2019 the above conditions will have to be met for at least 24 months ending with the date of sale.

When you step back gradually from your company, retiring from your role as director before you sell your shares, you may miss out on this valuable tax relief. Also, a plan to sell your company and carry on the business on a smaller scale as an individual or partnership can be caught by anti-avoidance legislation. ●

ACTION POINT!
Allow at least 12 months to prepare to sell your company.

Planning gains

Everyone has an annual exemption for Capital Gains Tax (CGT) of £11,700 for 2018/19. This is wasted if you don't make capital gains in the tax year. You can't carry forward any unused exemption to a different tax year, or transfer the exemption to another person.

If you are planning to dispose of assets which will create capital gains, you can save tax if the disposals are spread over several tax years. This is easy to do if your assets can be split into separate chunks, like shares. Each sale can then be calculated to produce a gain of less than £11,700.

If the asset must be sold in one go, you could reinvest part or all of the gain in Enterprise Investment Scheme (EIS) shares (if you are prepared to take a risk). This will defer the gain until the EIS shares are sold. You can sell sufficient EIS shares in later years, so the gain is covered by your annual exemptions.

When you give a valuable asset to a relative, the disposal is treated like an open market sale, and the deemed gain is taxable. However, gifts to your spouse or civil partner don't create immediate taxable gains, as the recipient takes over the transferor's CGT cost. You can use this transfer to share the ownership of a property, and hence the gain, between two people and thus use two annual exemptions in one tax year.

Legal advice should always be taken when giving away land or buildings, or a share in such property. Stamp duty land tax (or similar taxes in Scotland or Wales) may be payable if the property is mortgaged. ●

ACTION POINT!

Are you taking full advantage of the CGT exemption?

Money for miles

If you use your own car for a business journey, perhaps to travel to a customer, you can claim mileage expenses for that journey. Many employers pay the full tax-free amount of 45p per mile, which drops to 25p for miles in excess of 10,000 in one tax year.

If your employer doesn't pay the full rate, you can claim tax relief on the shortfall, either on your tax return or on form P87. You need to submit your claim within four years of the end of the tax year in which you made the business journey. Claims for 2014/15 must reach the tax office by 5 April 2019.

Once HMRC has accepted your mileage claim for one tax year, subsequent claims for up to £1,000 per year can be made by phoning the tax office on 0300 200 3300. ●

ACTION POINT!

Are you due a tax refund for business journeys?

Your clear intention

When you die, your executors or relatives need to sort out your affairs. This stressful task can be made easier if you leave a clear and up-to-date Will which has been drafted with tax in mind.

They also need to pay Inheritance Tax (IHT) if the net value of your assets, including your home and any insurance policies that pay out to your estate on death, exceeds £325,000. Any wealth above this threshold bears IHT at 40%, or at 36% if at least 10% of your net estate has been left to charity.

The IHT tax threshold is expanded by at least £125,000 if you leave the value of your home to one or more of your direct descendants. If that is your wish, your Will must be clear about who receives the value of your home. This home-related tax exemption will increase to £150,000 for deaths on and after 6 April 2019.

There are other ways to reduce the IHT payable on death, such as:

- use your annual IHT allowance of £3,000 to make gifts from your capital or savings; if you didn't use the allowance in 2017/18 you can give away up to £6,000 in 2018/19
- make other gifts to individuals as early as possible, as they will fall out of the IHT calculation if you survive seven years after the date of the gift (but be careful not to trigger CGT charges on the gifts)
- make regular gifts out of your surplus income rather than out of accumulated income or capital – those lifetime gifts may escape IHT
- ensure that proceeds from your life assurance policies flow directly to a beneficiary – if the money lands in your estate on your death, this could trigger an IHT charge
- inform your pension fund managers of whom you wish to receive any undrawn funds by way of a wishes letter – such funds can be free of IHT if you die aged under 75 ●

ACTION POINT!

Is your Will up to date and do your executors know where to find it?

Investing for the future

The Government encourages individuals to make high-risk investments in small trading companies or charities by providing Income Tax relief for investors in the following schemes (limits for 2018/19):

- Social Investment Tax Relief (SITR): 30% relief on up to £1 million
- Enterprise Investment Scheme (EIS): 30% relief on up to £2 million
- Seed Enterprise Investment Scheme (SEIS): 50% relief on up to £100,000
- Venture Capital Trust (VCT): 30% relief on up to £200,000

If you invest above £1 million under the EIS, the additional investment must be in 'knowledge-intensive' companies. The amounts invested under EIS, SEIS or SITR can be treated as made in the previous tax year if the investment limit for the earlier year has not been reached.

When you dispose of shares acquired under these schemes, any capital gains you realise will be free of Capital Gains Tax (CGT), if you've held the investment for at least three years (except VCTs, where there is no minimum period).

Tax due on capital gains made from selling other assets can be deferred by reinvesting under the EIS or SITR within three years of making the gain. Reinvesting the gain in SEIS shares will halve the tax on that gain if the investment limits and conditions are not breached.

These tax reliefs won't turn a bad investment into a good one, but they will make a good one better and will reduce the risk involved in investing.

There is now another CGT relief for certain unquoted shares. Shares acquired on or after 17 March 2016 that qualify for Investors' Relief are free of CGT if they are held for at least three years and disposed of after 5 April 2019.

You should take advice from a qualified financial adviser on where to put your money, as well as understanding how it will reduce your tax bill. If you are thinking of investing in one of these schemes, you may want to do so before 6 April 2019 to maximise the benefit. ●

ACTION POINT!

Are tax-favoured investments worth discussing with your advisers?

Cash and finance costs

Individual landlords of residential properties are subject to restrictions on how much interest and finance costs they can deduct from rental income.

In 2018/19 individual landlords are permitted to deduct just 50% of their interest and finance charges for tax purposes. From 6 April 2019 it reduces to just 25% and from 6 April 2020 all such finance costs will be disallowed. In place of the blocked interest the landlord receives a 20% tax credit to set against his Income Tax bill. This restriction of interest deductions doesn't apply to corporate landlords.

Where the property business is supported by borrowing, the increased taxable income can push the landlord's total income into higher tax bands, leading to the loss of allowances or the clawback of Child Benefit.

The example below compares an English landlord's tax position in 2018/19 (when he deducts 50% of the £32,000 interest paid) with his position in 2020/21, when all his interest is blocked. The amounts of Personal Allowance (£12,500) and basic rate band (£37,500) are estimated for the later year. The figures will be different for Scottish taxpayers, who pay tax on property income at different rates.

If your residential property business is supported by large borrowings, you need to urgently consider whether to restructure that business to avoid significantly higher tax bills. Your choices may include:

- selling one or more residential properties to reduce borrowings
- selling all residential property and reinvest in commercial buildings (the interest restrictions don't apply)
- let the homes as Furnished Holiday Lettings (which are not affected, but require detailed conditions to be met)
- transferring the properties into a company

The last option is not easy as the lender will have to agree to transfer your property loans to the company. The transfer of properties is likely to incur land tax charges for the company, and may well generate a taxable capital gain in your hands.

Since April 2017 individual landlords with turnover of no more than £150,000 should use the 'cash basis' to draw up their accounts. This has the effect of taxing income in the year it is received and expenses in the year they are paid. It may benefit you if your tenants tend to pay late. You can opt out of the cash basis if you wish.

We can help you model the financial future for your residential property lettings. ●

ACTION POINT!

Review your borrowings to ensure a sustainable future for your lettings business.

	2018/19	2020/21
Salary	£35,000	£35,000
Rents less running costs	34,000	34,000
Interest deduction	(16,000)	nil
Total net income	53,000	69,000
Personal Allowance	(11,850)	(12,500)
Taxable income	41,150	56,500
Tax charged at 20%	6,900	7,500
Tax charged at 40%	2,660	7,600
Tax credit on interest at 20%	(3,200)	(6,400)
Total tax payable	6,360	8,700

Elect in good time

Events don't always turn out as expected. For example, you may need to wait for a later profit or loss to arise before you can judge whether it's right to elect to change the tax treatment of an earlier transaction.

This is why the law allows you extra time, after you have submitted your tax return, to submit a tax election or claim. The elections you may need to make by 31 January 2020 for the 2017/18 tax year include:

- to set trading losses against your other income
- to average the profits made from farming, or as an author or artist
- to treat a property as continuing to qualify as commercial Furnished Holiday Letting if it qualified as such in 2016/17, but otherwise would not

You need to wait for a certificate to arrive before making a claim for your investment under the venture capital schemes – EIS, SEIS or SITR – so the claims period for those schemes is five years after the tax return submission date.

Corporate tax claims generally need to be made within two years of the end of the accounting period in which the transaction occurred.

We can help you check what claims or elections you need to make. ●

ACTION POINT!

Have you made all the necessary tax claims?

VAT goes digital

For VAT periods beginning on and after 1 April 2019, most VAT-registered businesses will have to submit their VAT returns directly from some form of software, with no manual retyping of figures. All the VAT records also need to be kept in a digital format.

This new approach to filing VAT returns and keeping records is part of the making tax digital (MTD) project, which will be expanded to include returns for all the main taxes in future years.

For certain businesses, such as those that use the VAT annual accounting scheme, the start date for MTD for VAT is deferred to the first VAT period which begins on or after 1 October 2019.

Businesses that are registered for VAT on a voluntary basis can choose whether to file the VAT return in the current fashion by typing in figures to HMRC's online form, or to join the MTD project and use software to submit the return.

We will be able to submit your VAT return on your behalf as now, but there are some procedures to follow to get your business ready for the MTD regime.

The best way to prepare for this digital revolution is to get into the habit of recording all your sales and purchases using accounting software, or at least on a spreadsheet. We can help you choose and implement the right software for your business. ●

ACTION POINT!

Is your business ready for MTD?

Slowness fines

If you are slow in submitting your tax returns, you will get a late filing penalty. If you miss the deadline for filing your self assessment tax return (31 January for online filing) you will be charged a £100 penalty. Where the tax return is for a partnership, each partner must pay £100.

If the return is filed more than three months late, an additional £10 per day is charged, and after six months another penalty is imposed as the higher of £300 or 5% of the tax due. Those penalties will stand even if the tax return shows no tax.

A similar £100 penalty applies for a late Corporation Tax return, which is due a year after the end of the accounting period. If you make a habit of submitting late company returns, the penalties rise to £500 each time.

The penalties for paying VAT late can amount to up to 15% of the delayed payment, even if it arrived only one day late.

Pay attention to any electronic warning notices from HMRC about penalties due. If you have a 'reasonable excuse' you may escape the penalty, but lack of funds is generally not an acceptable reason. ●

ACTION POINT!

We can help you file on time, if you respond to us promptly.

Timing is everything

The end of the accounting period for your business is a key point for tax planning. You can save or delay tax by moving income and expenditure between accounting periods.

For instance, advancing the acquisition of assets to just within your current accounting period will mean the capital allowances associated with those assets can be claimed earlier.

The cost of qualifying assets which fall within the Annual Investment Allowance (AIA) is given in full as a capital allowance in the year of purchase. The maximum amount that can be claimed under the AIA per year is increasing from £200,000 to £1 million, for expenditure incurred in the two years to 31 December 2020. For accounting periods straddling these dates there are complicated transitional rules.

From 29 October 2018 the cost of constructing, renovating or converting a commercial building to be used by your business qualifies for a 2% p.a. allowance. Costs connected with residential accommodation don't qualify, neither do the costs of acquiring land or obtaining planning permission.

If your current year profits are looking very healthy, you may want to advance the payment of repairs, training costs, bonuses or pension contributions.

An accrued salary payment, such as a bonus voted before the year-end, is deductible for the period if it is actually paid within nine months after that year-end. However, a pension contribution must be paid within a company's accounting period to be deductible for that period. ●

ACTION POINT!
Review spending plans and likely profit levels before your year-end.

The ATED trap

The Annual Tax on Enveloped Dwellings (ATED) applies when a company (and certain other bodies) owns a UK residential property worth over £500,000. The charge applies for the year from 1 April, but the ATED return, and any payment due, must reach HMRC by 30 April within that period (i.e., by 30 April 2019 for 2019/20).

This annual charge starts at £3,650 and increases, through valuation bands, up to £232,350 for 2019/20. The charge is based on the property's value as at 1 April 2017, or the purchase date if later.

The owner can claim 100% relief from ATED if the property is let commercially, is under development, or if certain other conditions apply, but the relief must be claimed on an ATED relief form by 30 April for each year.

There are steep penalties for late submission of ATED returns, which are payable even if there is no ATED charge to pay. HMRC can check whether an ATED return is due by accessing the Land Registry database to see who owns which properties. ●

ACTION POINT!
Remember to claim ATED relief when developing or letting high value homes owned by a company.

VAT registration issues

The VAT registration threshold has been fixed at £85,000 from 1 April 2017 until at least 31 March 2022. This may bring more businesses into the VAT fold, if they increase their prices with the rate of inflation.

This threshold can be a cliff edge for many businesses as, once VATable turnover exceeds it, the business must charge VAT on all eligible sales. For your UK sales, you must check the cumulative total of your VATable sales (including zero-rated items) for every 12-month period and register for VAT within 30 days, once this total exceeds £85,000.

Do this calculation every month, as if you tally up your sales just once a year for your accounts, you may miss this 30-day deadline. If your sales suddenly take off, you may be too busy to remember to register for VAT within 30 days. If you register later than the law demands, you can suffer a penalty.

For example, say your annual sales (accruing evenly throughout the year) are £83,000. If you increase your prices by 3% in January 2019, by 31 October 2019 your turnover in the previous 12 months will be £85,075 and you will have to register for VAT within 30 days.

You could restrict your price increase to keep your turnover under £85,000, but if your purchase costs are increasing this will cut your profit margins. Alternatively, you could perhaps restrict your sales by taking longer holidays, if you can afford it.

Another idea is to hive off a part of your business into a separate legal entity, so that each new business has turnover under £85,000. However, this must not be an 'artificial' split.

The two businesses should have a bank account each, keep separate business records and file separate tax returns. Ideally, the businesses should provide different services or goods to separate groups of customers. There must be separate contracts with any common suppliers.

Many businesses, however, may wish to register for VAT earlier than needed. Early registration allows you to claim back VAT on your start-up expenses. You can reclaim VAT on services used within the six months before your VAT registration date, and on goods acquired within four years before that date (if they are still held at the date of registration). The VAT paid on an expensive shop refit could be lost if you delay VAT registration for too long.

However, it's a balancing act – if you register earlier than required, you must account for VAT on sales made after your registration date that could otherwise have been VAT-free.

You can't change the VAT registration date requested once you've applied to register. It's very important to plan your VAT registration, to ensure the registration date falls at the optimum time for your business.

Businesses that sell digital services (such as eBooks or software) to non-business customers in other EU countries are not required to register for VAT in those EU countries, if the total value of their digital sales to other EU countries is less than £8,818. If below this threshold, they will have to charge UK VAT on the digital supplies.

If your annual digital sales to non-business customers in EU countries are likely to be less than £8,818 for 2019, and were less than that threshold for 2018, you can deregister from VAT MOSS (Mini One Stop Shop) from 1 January 2019. We can help you with this. If such sales are above the threshold and a 'no deal' Brexit occurs, businesses will need to register in an EU country for MOSS. It is best to use Eire or Malta, as their forms are in English. This can only be done post Brexit and would have to be done by the 10th of month following the month when the first post Brexit supply is made. ●

ACTION POINT!
Check your total sales on a 12-month rolling basis.