2019-20

YEAR END TAX

REVIEW

Dey & Co.
Chartered Accountants

Brookdale
41Clarence Road
Chesterfield
Derbyshire
S40 1LH

Tel: 01246 234777
Fax: 01246 206629
E-mail: clientservices@dey.co.uk

Dey & Co. Ltd.
Registered in England and Wales No. 07124396

Be prepared for change

The Conservative Government now has a healthy majority which will allow it to change the tax law as it wishes, with little effective opposition. The tax and economic changes to be announced in the Budget Statement on 11 March 2020 could be dramatic.

For example, the Conservative Party manifesto stated that there would be a review and reform of Capital Gains Tax Entrepreneurs' Relief, so we cannot count on that relief surviving into the next tax year: 2020/21. We already know the Government intends to reduce or remove a number of Capital Gains Tax reliefs relating to the sale of homes from 6 April 2020, as set out below.

Another promise from the Conservative manifesto was to freeze the rates of Income Tax, National Insurance and VAT, although it is not clear if this freeze will apply to all classes of National Insurance Contributions (NIC), and how long it will last.

The Chancellor is likely to focus on measures to assist the lower paid in his Budget. The rates for the National Living Wage and National Minimum Wage have already been announced for 2020/21, showing increases at all levels above 6%.

As wages increase so does the amount of Class 1 NIC that employers have to pay, so to help employers cover this cost the employment allowance will increase by £1,000 to £4,000 from April 2020. However, only smaller employers who pay less than £100,000 of Class 1 employers' NIC per year will benefit from this allowance.

The Prime Minister also promised to help the low earners by increasing the threshold at which they start to pay NIC from £8,632 to £9,500. This would be a big jump in one year and will cost at least £2 billion, so we should expect equivalent tax rises in other areas.

The rate of Corporation Tax was due to be cut from 19% to 17% on 1 April 2020, but the Conservative manifesto said it would instead remain at 19%.

Large innovative companies may benefit from an increase in the rate of research and development deductions from 12% to 13%, and widening of the scope of those R&D enhanced deductions. We will have to wait until the Budget to know exactly what these tweaks to the R&D scheme involve.

This guide has been written on the basis that the above Conservative manifesto promises are enacted for 2020/21 but we can't be certain what other tax rates and thresholds will apply.

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. Between now and the end of the tax year (5 April 2020) is a good time to assess whether you have claimed all the relevant allowances and 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. ●

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 £1 million, for expenditure incurred in the two years to 31 December 2020. There are complex rules for accounting periods that straddle the start and end of that two-year period.

The cost of constructing, renovating or converting a commercial building to be used by your business qualifies for a 2%pa structures and buildings allowance (SBA), which the Conservative Party promised to increase to 3% in future. Costs connected with residential accommodation don't qualify for the SBA; 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.

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. 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 (currently 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 2019/20.

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 £17,500 he has £5,000 of taxable income, which is deemed to eat up his SRB. He is a basic rate taxpayer, so has a PSA of £1,000.

2019/2020	**Non-savings**	**Savings**	**Tax payable**
Salary/Interest	£17,500	£1,500	
Personal Allowance	(12,500)		
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% (i.e. £5,250) under a written agreement. The company uses the money for development. Harry also reduces his salary to £13,750, so that his total income is still £19,000. Reducing his salary frees up some starting rate band to set against his interest income – see below.

2019/2020	**Non-savings**	**Savings**	**Tax payable**
Salary	£13,750		
Interest		5,250	
Personal Allowance	(12,500)		
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

Individuals who reach State Pension Age (SPA) on or after 6 April 2016 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 (£50,000 for 2019/20). Taxpayers resident in Scotland can save tax with Gift Aid donations if their total income, including earnings, is above the 21% threshold (£24,945 for 2019/20). 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.

To carry back the Gift Aid donation it 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 2020. If you submit your 2019/20 tax return after that date (it's due by 31 January 2021) you can include a claim in that return to carry back up to £2,000 of the donation you made on 21 December 2020, which will reduce your 2019/20 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 next income tax return?

GIVE
SPEND
SAVE

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 at some point in the tax year – 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 or store room.

If you let out land or buildings which don't qualify for rent-a-room relief, 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 your spouse is associated with.

If either type of rental income exceeds the relevant allowance, it must be declared on your tax return, along with any related expenses. If the allowance exceeds the actual expenses, you can deduct that allowance in place of those expenses.●

ACTION POINT!

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

Innovate to accumulate

Companies that 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 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 or for R&D claims submitted in respect of 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 the 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.

Prepare for off-payroll working

If you provide your personal services through your own company to large or medium-sized organisations, the way you are taxed may change for payments from 6 April 2020, due to the off-payroll working rules.

Where your final customer is not small (it is large or medium-sized), it must determine whether the relationship with you is a deemed employment. It may do this using the HMRC online tool called "CEST". Your customer may ask you to provide information to feed into the CEST tool before April, to help it form its determination.

Your customer (or the agency you deal with) should tell you the outcome of the employment status determination and you can object if you disagree with the result.

Where your work is treated as a deemed employment, the payments made to your company for that work must have income tax and employee's NI deducted from the gross amount. VAT is charged on the gross invoiced amount as normal if your company is VAT registered.

Where your relationship with your customer is not deemed employment, your invoices should be paid with no deductions, as now.

A quick way to determine whether your customer is "small", and not affected by the off-payroll rules, is to check whether its last accounts have been audited. "Small" companies are not audited, and small is also defined as not meeting two or more of these criteria:

- Annual turnover: more than £10.2m
- Balance sheet total: more than £5.1m
- Average number of employees: more than 50

The last set of accounts filed at Companies House will tell you if the company has been audited, and should give you the figures to check against the above criteria.

We can help you check the accounts and advise on how to tell whether your customer is on the boundary of small or medium-sized. ●

ACTION POINT!

Talk to your customers about the off-payroll rules before they start in April.

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 withdrawn based on the income of the higher earner in a couple, irrespective of who receives 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 (£12,500 for 2019/20) 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 2019/20 George Brown earns £90,000 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 £45,000, 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 because his income exceeds £125,000.

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 families can save tax if they transfer some income from the higher earner to the lower earner in order to take advantage of the Personal Allowance or lower tax bands, and to avoid the clawback of allowances. This is not always easy to do, but the following methods are permissible:

- make an outright gift of investments which produce taxable income
- put savings and investments into joint names and share the income
- employ the spouse or partner in the other person's business
- take the spouse or partner into partnership in that business

HMRC can challenge some of these methods if they think the transfer is not genuine – always take tax advice to be sure that your plan will work. ●

ACTION POINT!

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

Payroll

Most employees, with very limited exceptions, must be paid at least 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 2020, 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?

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 16% of its list price when new, but from 6 April 2020 the taxable benefit for driving an electric company car will drop to 0% of its list price. However, this zero-rate is only due to last for one tax year: 2020/21, after which the taxable benefit will be increased to 1% of list price, and 2% for 2022/23.

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.

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 other than to be used as a deposit for the saver's first home, on 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 you need to 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 pension 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.

If your income is over £110,000, and adding the pension contributions made by you and your employer takes that total to over £150,000, your annual allowance is reduced by £1 for every £2 over that threshold, down to a minimum of £10,000.

Your annual allowance is also reduced, to exactly £4,000, if you have ever 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.

An unused amount of the £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 2020.

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 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 are different for self-employed individuals, and don't 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 live in Scotland and 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

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 Pensions Annual Allowance.

Taxpayers who live in Scotland have slightly different tax thresholds than those that apply in the rest of the UK (see above), but the principle is the same. You may be able to save tax by moving income from 2019/20 to 2020/21, or by making certain payments in 2019/20 rather than in 2020/21.

Say you are a 20% taxpayer in 2019/20, but expect that a bonus due in March 2020 will tip you into the 40% band (over £50,000). If you ask your employer to delay paying the bonus until after 5 April 2020, you'll pay the tax on that income later. You should also retain all your £1,000 Savings Allowance, and may still stay out of the 40% band for 2020/21. We don't yet know the 40% threshold for 2020/21 but it is likely to be at least £50,000.The main thresholds for 2019/20 are:

- basic Personal Allowance: £12,500 – basic rate tax (20%) starts
- higher rate threshold: £50,000 – 20% rate increases to 40% and Savings Allowance reduces from £1,000 to £500
- married couple's allowance: transfer of 10% of Personal Allowance is possible where the higher earner has income of no more than £50,000
- Child Benefit clawback: income between £50,000 and £60,000
- withdrawal of Personal Allowance: income between £100,000 and £125,000
- additional rate: income above £150,000 – 40% rate increases to 45%, Savings Allowance removed, and pension annual allowance reduced

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 2020.

Selling your business

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. This would normally be taxed at 20% after deduction of your annual exemption (£12,000 for 2019/20).

Entrepreneurs' Relief can reduce your tax rate to 10% on a gain of up to £10m, but this relief is under threat from a pre-election promise to review and reform it. If you want to be sure of benefiting from this relief, take advice and be prepared to act quickly.

To be eligible to use Entrepreneurs' Relief you must meet these conditions for at least 24 months ending with the date of the sale:

- be an employee, director or company secretary of the company or of another company in the same trading group
- 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 profits and assets available for distribution to equity holders on the winding up or
- be entitled to receive at least 5% of the total proceeds on the sale of the entire company

If you plan to sell your company and carry on the business on a smaller scale as an individual or partnership, or start up the same business again within two years, you can be caught by anti-avoidance legislation which will tax the gain as income. ●

ACTION POINT!

If you are planning to sell your company, discuss your plans with us without delay.

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 may 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. The IHT rate above this threshold is 40%, or 36% if at least 10% of your net estate has been left to charity.

The IHT tax threshold is expanded by up to £150,000 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 £175,000 for deaths on and after 6 April 2020.

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 this allowance in 2018/19 you can give away up to £6,000 in 2019/20
- 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?

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 2019/20 individual landlords are permitted to deduct just 25% of their interest and finance charges for tax purposes. 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 2019/20 (when he deducts 25% 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 slightly 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 your borrowings
- selling all residential property and reinvesting in commercial buildings (the interest restrictions don't apply)
- letting 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.

	2019/20	**2020/21**
Salary	£35,000	£35,000
Rents less running costs	34,000	34,000
Interest deduction	(8,000)	nil
Total net income	61,000	69,000
Personal Allowance	(12,500)	(12,500)
Taxable income	48,500	56,500
Tax charged at 20%	7,500	7,500
Tax charged at 40%	4,400	7,600
Tax credit on disallowed interest at 20%	(4,800)	(6,400)
Total tax payable	7,100	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 2021 for the 2018/19 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 2017/18, 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?

Planning gains

Everyone has an annual exemption for Capital Gains Tax (CGT) of £12,000 for 2019/20. 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 £12,000.

If the asset must be sold in one go, you could reinvest part or all of the gain in Enterprise Investment Scheme (EIS) shares, but you must be 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 between spouses to share the ownership of a property, and hence the gain, 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 2015/16 must reach the tax office by 5 April 2020.

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?

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 2019/20):

- 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.

Unquoted shares acquired on or after 17 March 2016 can qualify for Investors' Relief, so CGT is paid at 10% if the shares are held for at least three years and disposed of after 5 April 2019.

Always take advice from a qualified financial adviser on where to put your money, and to understand how certain investments 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 2020 to maximise the benefit.●

ACTION POINT!

Are tax-favoured investments worth discussing with your advisers?

Slowness fines

If you miss the deadline for filing your self-assessment tax return (31 January for online filing) you will be charged a £100 penalty.

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. The flat-rate penalties will stand even if the tax return shows no tax.

Your company's Corporation Tax return is due a year after the end of the accounting period. The penalty for being even one day late is £100 and another £100 is imposed after three months, then 10% of the tax due if the return is six months late. If you make a habit of submitting late company returns, the fixed penalties rise to £500 each time.

The penalties for paying VAT late can amount to up to 15% of the delayed payment, for even 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.

'Making good' benefits

Where an individual receives a benefit from their employer they can avoid being taxed on it if they 'make good' the value of benefit by reimbursing the employer. There are strict time limits for doing this.

All reimbursements of taxable non-payrolled benefits for 2019/20 must be made by 6 July 2020, which aligns with the date for submitting the forms P11D.

The dates for making good on payrolled benefits-in-kind provided in 2019/20 are:

- 1 June 2020 for the value of road fuel used
- 5 April 2020 for all other benefits

The deadlines for making-good specifically don't apply to interest payable on beneficial loans and overdrawn directors' loan accounts. Where such loans exceed £10,000 at any point in the tax year there is a taxable benefit if insufficient interest is paid. This taxable 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 2019/20 is 2.5%.

Despite the exclusion for beneficial loans, most people should try to pay any interest due on a loan by the 6 July following the tax year, to avoid any doubt as to whether a benefit arises at the time the P11D form is being prepared. ●

ACTION POINT!

To avoid a taxable benefit, make the reimbursement within the statutory time limits.

Profit from your home

Contrary to popular belief, the profit you make when you sell your home, or a former home, is not automatically exempt from Capital Gains Tax (CGT).

This tax exemption only applies to gains that relate to periods in which you lived in the property as your main home. However, it can be extended to certain periods when you were not living in that property.

For example, the last 18 months of ownership are exempt from tax, which is extended to 36 months where the owner or their spouse is disabled or moves into residential care. The 18-month exemption is due to be cut to nine months for sales made after 5 April 2020, but the 36-month exemption will remain in place.

Where you have let your former home at any time, even before you moved into the property, up to £40,000 of the gain can be exempt from CGT for each owner. This 'lettings relief' is due to be restricted for sales from 6 April 2020, so that it will only apply where the owner was in occupation at the same time as the tenant. The change will mean that nearly all periods of letting in the past will no longer qualify for the tax exemption.

Talk to us if you are planning to sell your home in 2020, as there are a number of tax reliefs which could affect the tax you pay. ●

ACTION POINT!

Consider selling before 6 April 2020 to take advantage of the current tax reliefs.

HOUSE
FOR SALE

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 2020 for 2020/21).

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 frozen at £85,000 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 harsh cliff edge, as once VATable turnover exceeds it the business must charge VAT on all eligible sales. It must also keep its VAT records in a digital format and submit its VAT returns using MTD-compatible software.

For your UK sales, you must check the cumulative total of your VATable sales (including zero-rated items) for every rolling 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 2020, by 31 October 2020 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, 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 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, but this threshold only applies while the UK is a member of the EU.

When the UK is no longer treated as a member of the EU, you will need to register for VAT in an EU country if you sell any digital services to non-business customers in EU countries. You will also have to charge the correct rate of VAT on your digital services provided in each EU country where your non-business customers belong. ●

ACTION POINT!

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

This newsletter is written for the benefit of our clients. Further advice should be obtained before any action is taken.