

Year End Tax Guide 2018-19



Contents

Personal Allowances & Reliefs

Page 03

Corporation Tax

Page 03

Pension Contributions

Page 04

Business Deductions

Page 04

Entrepreneurs' relief

Page 05

VAT

Page 05

Penalties

Page 06

Upcoming charges

Page 06

Important Information

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future. ISA and pension eligibility depends upon individual circumstances. FCA regulation applies to certain regulated activities, products and services, but does not necessarily apply to all tax planning activities and services. This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation. Whilst considerable care has been taken to ensure that the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information.

Personal Allowances and Reliefs

The personal allowance for the current tax year is £11,850. Non-savings income above the personal allowance is taxed at rates from 20% to 45% (or 19% to 46% in Scotland).

A higher marginal tax rate may be payable between £100,000 and £123,700 when the personal allowance is gradually withdrawn. This gives an effective marginal rate of 60% (61.5% in Scotland) in this band for non-savings and savings income.

You may be able to transfer £1,190 of your personal allowance to your spouse or civil partner if neither of you is a higher-rate taxpayer.

Generally speaking, it is relevant when one spouse or civil partner is not able to use all of their personal allowance.

Tax on savings

The personal savings allowance allows basic-rate taxpayers to receive up to £1,000 of savings income tax-free, while a higher-rate taxpayer can get up to £500 of savings income, without any tax being due.

There is no relief for an additional-rate (45%) taxpayer.

The first £2,000 of income from dividends in 2018/19 is tax-free, while income from dividends that exceeds this amount is taxed at rates of 7.5%, 32.5% or 38.1%.

Scottish tax rates only apply to non-savings, non-dividend income so the same rates apply to Scottish taxpayers.

Planning

Things to consider:

- Is everyone in your family taking full advantage of their personal allowance? If not, then consider the transferable marriage allowance.
- Are there opportunities to utilise any unused allowances this tax year?
- What can you do to take advantage of marginal tax rates and reduce the slice taxable at a higher rate?
- Would it be possible to consider the tax-free alternatives instead of a bonus or a salary increase?
- Is your dividend strategy as tax-efficient as it could be?
- Could you take advantage of the rent-a-room relief which, for individuals, is £7,500 or £3,750 for joint-owners?

Corporation Tax

The main rate of corporation tax is 19% until 31 March 2020. From 1 April 2020, this rate reduces to 17%.

Corporation tax self-assessment requires companies to work out their own tax liability as part of their return and account for the 'self-assessed' liability to corporation tax.

Planning

Another very important tax-reduction strategy is to bring qualifying capital expenditure forward to take advantage of the 100% annual investment allowance.

On 1 January 2019, the allowance increased from £200,000 to £1 million for all qualifying expenditure until 31 December 2020, although transitional rules may apply for chargeable periods spanning these dates.

Taxable profits are typically reduced by employers making pension contributions, while self-invested personal pensions are popular with many company owner-directors.

Pension Contributions

There are limits to how much can be invested in a pension scheme before a tax charge is payable.

To qualify for personal tax relief, a pension contribution must be made by – or on behalf of – a UK individual.

Tax relief for pension contributions may be restricted by reference to net relevant earnings and the annual allowance.

The annual allowance is £40,000 for those with yearly income from all sources, and pension contributions under £150,000.

There is a minimum annual allowance of £10,000, in most cases, for individuals with total income plus employer pension contributions of £210,000 or more.

Complex rules apply to those with 'threshold income' above £110,000, so seek pension advice if necessary.

Provided you had a pension fund during the previous three years, it is possible to carry forward any unused allowances.

If your total pension savings exceed the lifetime allowance (£1.03 million in 2018/19) you may be liable to tax when you draw benefits.

Planning

If you are over 55, you may be able to start taking pension drawdown, even if you are still working – but there are tax implications for doing so. However, defined benefit schemes are likely to have restrictions, and possibly costs, if the pension is taken early. Other things to think about include:

Things to consider:

- When are you planning to retire and what's your ideal income?
- Should you increase your pension contributions?
- When considering if you have exceeded the annual allowance have you reviewed both your employee and employer pension contributions?
- Have you fully considered the potential inheritance tax benefits of maximising your pension fund?
- Ensure your letter of instruction to the trustees of the fund in the event of your death before drawing your benefits has been reviewed. It is essential that this is also considered when updating your will.

Business Deductions

Business owners are entitled to claim deductions from income for costs which are incurred wholly and exclusively in running the business.

Determining how this rule applies in practice can be a challenge. In most circumstances, a deduction may not be claimed in respect of depreciation.

However, deductions in the form of capital allowances are available for some expenditure on qualifying capital expenditure.

Planning

Directors' bonuses can be claimed as an in-year deductible cost so long as they are paid within nine months after the company year-end, and the entitlement to the bonus (but not the exact amount) is established before the accounting date.

Pension contributions must be paid before the year-end to get tax relief in the accounting period.

Salaries can be made to family members as long as they are justifiable and at commercial rates.

Other potentially tax-efficient ways of extracting profits include dividends and benefits in kind.

Entrepreneurs' Relief

Entrepreneurs' relief provides relief for disposals by smaller business owners.

It charges a reduced capital gains tax rate of 10% on disposals up to the lifetime limit of £10 million, giving a potential tax saving of up to £1 million. Complex rules apply to this relief, therefore, please seek advice to determine if the relief applies to you.

The relief is available on material disposals of business assets, which cover businesses operating as a sole trader, partnership or through a limited company.

It may not be available when a company is liquidated if the owner is involved in a similar business (whether a company, self-employment or a partnership) within two years of the distribution on winding up. These anti-avoidance rules also apply to other artificial arrangements.

Planning

Capital gains tax liability is just one aspect of all the planning that goes into the wording of the final contract for sale

Maximising the sale value and looking carefully at the proposed sale structure helps to ensure the liability to capital taxes is not a penny more than absolutely necessary.

There are a number of planning opportunities in this area, but there are also pitfalls if some shareholders do not qualify for this relief.

VAT

VAT is chargeable where taxable turnover is above £85,000 in the previous 12 months or you expect to make this value of supplies in the next 30 days alone.

There are schemes which simplify VAT accounting, including the cash accounting scheme, annual accounting scheme and the flat-rate scheme.

Planning

- Would it be appropriate for you to use one of the schemes?
- Have you reviewed the use of the flat-rate scheme and taken appropriate action – which might include voluntary deregistration for VAT if trading under the deregistration threshold (£83,000)?
- Are you claiming any 'VAT bad debt relief' that you are entitled to?
- Are you accounting for VAT on the fuel used for private motoring using the appropriate scale charge?
- Make sure that you don't reclaim VAT on cars (unless you are a car dealer or taxi company, for example, or provide certain pool or leased cars for employees) or on entertaining UK customers.



Penalties

The penalty regime covers income tax, corporation tax, VAT and inheritance tax.

Miss the first income tax return filing deadline and the next day you will be liable for a £100 fine.

Leave it for another three months and the maximum penalty rises by £10 a day, up to a maximum of £900.

After six months a further £300 or 5% of the tax due – whichever is the higher – is added. In some serious cases the penalty can be even higher than this.

There are also penalties to cover the notification of starting a business and filing returns and accounts at Companies House.

Penalty rates range from £150 for a private company filing the accounts not more than one month late, up to £7,500 for a public company filing accounts more than six months late.

Upcoming changes

The following are some future rules, rates and allowances that may affect your tax planning for 2019/20, applicable from 6 April 2019.

Personal Allowance and threshold

The personal allowance for 2019/20 is £12,500 and this applies throughout the UK.

In England, Northern Ireland and Wales, the basic-rate band threshold increases to £37,500.

This means that individuals who are entitled to a full personal allowance will not be liable to higher-rate tax in England, Northern Ireland and Wales until their total income exceeds £50,000.

The national insurance contributions upper earnings limit will also increase to remain in line with the higher-rate threshold.

In Scotland, the basic-rate threshold increases to £24,944 – but the higher-rate threshold remains at £43,430 (subject to final confirmation in February 2019).

As a result, higher-rate taxpayers in Scotland face significantly higher income tax bills than their counterparts in the rest of the UK.

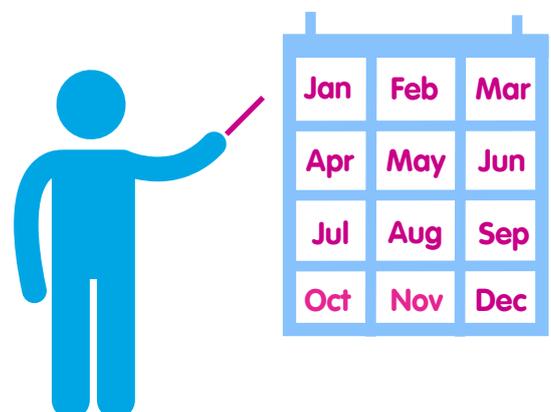
Pensions

The pension lifetime allowance increases by £25,000 to £1.055 million.

Vehicles

The van benefit charge will increase from £3,350 to £3,430 and the van fuel benefit charge will increase from £633 to £655.

Employees provided with fuel for private mileage in a company car will see the value of the multiplier used for calculating the cash equivalent of the fuel benefit increase from £23,400 to £24,100.



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