PKF FRANCISCLARK

Chartered accountants & business advisers

Topical Tax Points

We have set out some topical tax points you may like to consider during the 2018/19 tax year to ensure that you are minimising your tax liabilities by maximising your reliefs and exemptions.

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supporting you and your business

Savings income

In April 2016, the government introduced the personal savings allowance. The allowance means basic rate tax payers are able to earn up to £1,000 in savings income tax-free, whilst higher rate tax payers are able to earn up to £500 (no relief is given to additional rate tax payers). Savings income includes interest from bank and building society accounts, National Savings & Investments, interest distributions from authorised unit trusts and income from government and company bonds. Banks and building societies no longer deduct tax from account interest.

In addition to the personal savings allowance, the 0% starting rate band (SRB) for up to £5,000 of savings income is still available. However, the £5,000 zero-rate allowance for savings income is reduced by non-savings income in excess of your personal allowance. Therefore, for the 2018/19 tax year, if non-savings income is in excess of £16,850 (£11,850 personal allowance + £5,000 SRB) the allowance will be tapered down to nil.

Depending on overall income levels, it may be beneficial for spouses to consider transferring interest-producing savings and investments between themselves to take advantage of these tax breaks.

Dividend income

From 6 April 2018 the dividend nil rate band has reduced to £2,000, with any dividends falling within this band taxed at 0%. Dividends in excess of the nil rate band will be taxed at 7.5% (basic rate), 32.5% (higher rate) and 38.1% (additional rate). The notional 10% tax credit on dividends has been abolished.

These rules are most likely to affect small business owners operating as a limited company, who typically withdraw profits from the business in the form of salary and dividends, but it will also affect those who receive dividends from investments, perhaps typically through a managed investment portfolio.

As with savings income, it may be beneficial for spouses to review the dividends received from their investments, and we would encourage you to speak to Francis Clark Financial Planning, or your own financial adviser, to ensure the most tax efficient approach is adopted.

Tax efficient investments

The Government wants to encourage new equity investment in trading companies and provides generous tax incentives to investors.

Under the enterprise investment scheme (EIS), investors receive a deduction against their income tax liabilities of up to 30% of the amount invested, and can also defer a capital gain to the extent that it is matched by an EIS investment. The deferred gain comes back into charge at the end of the investment term, but at that time the CGT annual exemption may be available to exempt the deferred gain entirely, or you may wish to re-invest the gain in a further EIS investment. EIS may also offer a shelter from inheritance tax (IHT) once the investment has been held for two years.

These investments are generally considered higher risk products, and the government has recently introduced legislation that will mean that many of the currently perceived ‘lower risk’ investment choices such as asset backed investments where some form of property is used as security against an investment are unlikely to be acceptable going forward. This will naturally lead to a change in the type of investments that will be available in future possibly resulting in less liquidity and higher investment risk. Our colleagues at Francis Clark Financial Planning would be happy to discuss any of these investments with you, to maximise the tax reliefs available and give you a personal recommendation to match your circumstances, objectives and attitude to risk.

Property income

Since April 2017, tax relief has been restricted on finance costs, including mortgage interest and fees, for landlords letting out residential property. The restriction does not apply to commercial property or furnished holiday lets. Residential landlords are no longer able to deduct all of their finance costs from the rental income to arrive at the net taxable profit. Instead, they will eventually only receive a basic rate tax deduction on such costs against their tax liability. The restriction is to being gradually phased in over four years, and for 2018/19 you will only be given relief for 50% of your interest costs against rental profits, with the remaining 50% being treated as a tax reducer at 20%.

This measure may result in your taxable income increasing into the higher rate tax band for various purposes, including calculation of the high income child benefit charge (HICBC): if you think you may be affected, please speak to your usual PKF Francis Clark adviser.

Property owned in the EU

An update in European law may be of relevance to you if you own any property in the European Union (excluding UK, Ireland and Denmark). Different jurisdictions apply different succession rules. Many European countries have forced heirship laws. 'Brussels IV' came into effect in August 2015 and is designed to align the succession laws in Europe. An individual can elect for the succession law of the state in which he is a national to apply on his death. This election must be made during lifetime in the individual's Will. It is recommended that you take legal advice, however the tax effects of the relevant succession rules should also be checked and we are able to provide assistance and planning in this respect through our access to the PKF worldwide network.

Main residence relief

Where an individual owns more than one home, they may, within two years of a change in the number of homes available to them, elect which is to be their main residence and accrue an exemption from CGT on that property. The property must be used as a home to qualify but may be in the UK or abroad. There is a two-year time limit to make an election but once made, it may be varied at any time.

With careful planning, this can be a very valuable relief and we would be happy to advise on the possibility of making an election in appropriate circumstances.

Capital gains tax

The general rate of capital gains tax (CGT) is now 10% for basic rate tax payers and 20% for higher rate tax payers. However, the old rates of 28% and 18% continue to apply on the disposal of residential property which is not your main home.

We can review the tax position for your particular circumstances and advise on the possibility of converting your buy-to-let to a furnished holiday let, or the potential CGT implications of selling your rental property.

Personal allowances

An individual with income below the personal allowance (£11,850 for 2018/19) can elect to transfer up to 10% of their personal allowance to their spouse or civil partner, provided the transferee is not liable to income tax above the basic rate. This is the transferable marriage allowance, but it is not available to those who claim the married couples' allowance (available where one partner was born on or before 6 April 1935).

The transfer is most beneficial where one spouse or civil partner is not a taxpayer, and the transfer of the maximum 10% of their personal allowance can save up to £237 in the 2018/19 tax year. The election must be made direct to HMRC. Please contact us for further details.

For individuals with incomes over £100,000, the personal allowance is reduced by 50% of income above this level. This creates an effective tax rate of 60% within the £100,000 - £123,700 income band. If you anticipate that your income will be above this level in any tax year, you may wish to consider planning to mitigate this high level of tax. You could, for example, transfer income generating assets to a spouse or civil partner.

Child benefit

The HICBC claws back child benefit from the higher earner in a couple, regardless of who receives the benefit. You will be affected if either you or your partner claim child benefit and your income exceeds £50,000.

If child benefit continues to be paid, then a charge will be made to claw all, or a proportion, of this back. It is possible to elect not to receive child benefit, but a nil claim form should still be completed, to ensure NIC credits are accrued towards your eventual state pension, and to ensure the child is allocated a NI number at age 16.

Making charitable donations under gift aid or personal pension contributions can reduce your income for the purposes of calculating any claw back of child benefit (and, as noted above, the recent changes to interest relief for rental properties can result in increased income for these purposes). You may therefore wish to consider the potential to mitigate any claw back of child benefit by making such donations or pension contributions, in addition to the tax relief associated with such payments on their own.

Pension contributions

Individuals can claim relief from income tax for contributions to personal pension schemes, although limits are placed on the sums that may be invested and receive tax relief. Both the annual allowance and lifetime allowance for pension savings have been reducing in recent years, but there are means of carrying forward previous years' unused annual allowances and securing previous lifetime allowances.

If you would like to speak to someone about your options, we would be pleased to put you in contact with our colleagues in Francis Clark Financial Planning.

Inheritance tax review

We recommend that everyone should have a Will and it should be reviewed every few years and on certain life events such as marriage, to ensure that it is up to date, remains effective and consistent with your intentions, and takes advantage of reliefs. If you feel a review of your IHT position would be useful, please let us know.

IHT is generally payable at the rate of 40% on the value of your chargeable estate in excess of the nil rate band (currently £325,000). This can be reduced by making lifetime gifts. Up to £3,000 can be gifted exempt from IHT every year. Larger gifts are potentially exempt if you survive for seven years, but you may be able to reduce your taxable estate in other ways, for example you may be able to make certain investments that typically qualify for IHT relief after two years.

Charitable legacies are exempt from IHT. Did you know that if you leave 10% of your net estate to charity, a reduced rate of IHT applies to the rest of your chargeable estate? This could present an opportunity to increase both charitable legacies and increase your residuary estate at the same time.

Charitable gifts

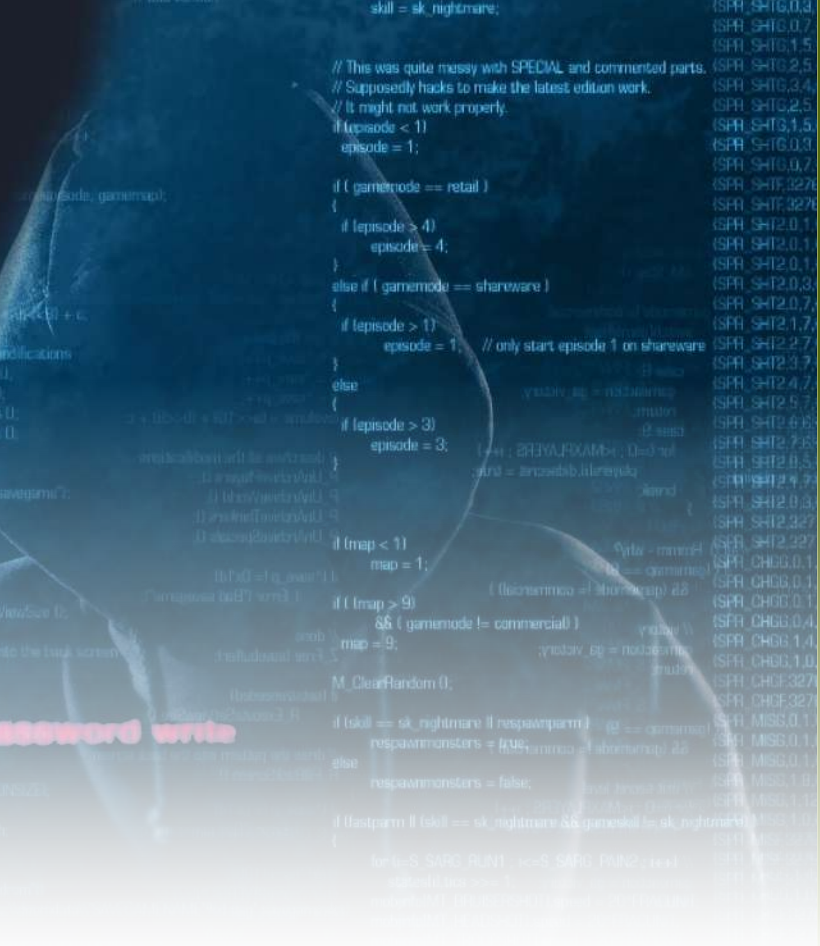
Under the gift aid scheme, payments made to charities are treated as having been made net of basic rate tax (20%). Higher rate (40%) and additional rate (45%) tax payers can claim further tax relief on the difference between the basic rate and their personal rate of income tax.

Charitable donations can be treated as having been made in the previous tax year in certain circumstances, which may offer the opportunity to claim tax relief at a higher rate depending on your circumstances.

Please let us know if you have made any recent donations and we can review the position.

Internet Fraud

Please be aware that there are always scam 'phishing' emails in circulation purporting to be from HMRC, typically suggesting that you have a tax repayment due. These emails originate from fraudsters who try to obtain details of your bank account, and should be ignored and deleted. HMRC will never contact you by email to ask you to claim a refund.



Making tax digital

Making Tax Digital (MTD) is a key part of the Government's efforts to reduce the tax gap, so it is likely that HMRC will continue to push hard to ensure the project stays on track, even though it is reportedly scaling back some of its other digital projects. The Government and HMRC have announced the proposed start dates for mandatory digital tax filing.

MTD will apply only to VAT at first, from 6 April 2019 when VAT registered businesses with taxable turnovers over £85,000 will be required to use MTD to meet their VAT reporting obligations. A pilot is underway, however the scope of those mandated to use MTD will not be further widened before April 2020, and it appears MTD will remain voluntary for smaller businesses (including those with turnovers below the VAT limit who have voluntarily registered) until at least that date.

We are continuing to review all our clients to establish how and when MTD will affect you and we will issue further guidance in due course.

Fee protection

HMRC selects a number of tax returns annually to check their accuracy and completeness. We offer insurance to cover our professional costs representing you in respect of any enquiry. If you are interested in receiving further details, please let us know.

Contact us

If you would like further information, or help on any of the matters covered in this news-letter, please contact:

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