MNA News Wire

MARSLAND NASH ASSOCIATES

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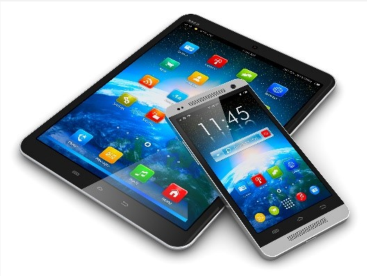
MAKING TAX DIGITAL IS NOW A REALITY



Making tax digital (MTD) is now law for all VAT registered businesses with turnover over £85,000. This new law requiring Digital record keeping and filing of VAT returns via the MTD portal came into force on 1 April 2019. This means change for many businesses but also a huge opportunity.

Do you want to reduce your running costs and streamline your accounting?

There are significant advantages to going "Digital" and we've been working with a number of our clients to help them streamline the way they do their accounts. Just suppose you:

- Had a system where your bank fed receipts and payments go directly into your accounts on a DAILY basis;
- Took a photo on your phone of a purchase or expense item invoice and it was posted automatically; and
- Could see your results, who owes you money, who you owe and your business bank balance 24/7, 365 from your smart phone!

We have a new and exclusive Digital system for helping business owners comply with the law and to give you:

- A clear picture of your current financial position, in real-time
- Automatic updates that mean you can spend more time doing what you enjoy
- Your accounts are 100% online, so there's no software to install and everything is backed up automatically. Updates are free and instantly available
- You can pay monthly for your accounting software – upgrades, maintenance, system administration costs and server failures are no longer an issue!

IF YOU WANT TO TAKE YOUR BUSINESS TO A NEW LEVEL, PLEASE CONTACT US FOR A DEMONSTRATION.

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PERSONAL SERVICE COMPANY CHANGES FROM APRIL 2020

In the Autumn Budget the Chancellor announced that the "off payroll" workers rules that currently apply in the public sector would be rolled out to the private sector in 2020. The government have now issued a consultation paper that sets out proposed tax and national insurance changes that will impact on those supplying their services through personal service companies.

End users will be required to determine whether the rules apply to the services provided by the worker via his or her personal service company. This will be a significant additional administrative burden on the large and medium-sized businesses who will be required to operate the new rules. The current CEST (Check Employment Status for Tax) online tool would be improved before the proposed start date.

No change for "Small" Employers

"Small" businesses will be outside of the new obligations and services supplied to such organisations will continue to be dealt with under the current IR35 rules with the worker and his or her personal service company effectively self-assessing whether the rules apply to that particular engagement. The definition of "small" has been widely awaited and the Government have confirmed that it intends to use the existing Companies Act 2006 definition. That is where the business satisfies 2 or more of the following features:

- Annual turnover of £10.2 million or less
- Balance Sheet total of £5.1 million or less
- 50 employees or less

The new obligations to determine whether the rules apply, deduct tax and national insurance, and report payments under RTI will apply to the agency or intermediary making payments to the personal service company where the end user is large or medium-sized. There will be an obligation to pass details of the status determination up and down the labour supply chain.

The liability for tax and national insurance will be the responsibility of the entity paying the personal service company, however if HMRC are unable to collect the tax from that entity the liability will pass up the labour supply chain thus encouraging those entities further up the supply chain to carry out due diligence to police compliance.

Please contact us if you would like to discuss how the proposed changes are likely to impact on your business.

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EXTRACTING PROFIT FROM THE FAMILY COMPANY

The start of the new tax year means that shareholders/directors may want to review the salary and dividend mix for 2019/20. The £3,000 employment allowance continues to be available to set against the employers national insurance contribution (NIC) liability which means that where the company has not used this allowance it may be set against the employers NIC on directors' salaries.

Thus, where the only employees are husband and wife there would generally be no PAYE or employers NIC on a salary up to the £12,500 personal allowance.

There would however still be employees NIC at 12% on the excess over £8,632 (£166 per week) which would be £464 on a £12,500 salary, leaving £12,036 net.

Taxation of Dividend Payments in 2019/20

Traditional advice would then be to extract any additional profits from the company in the form of dividends. Where dividends fall within the basic rate band (now £37,500) the rate continues to be 7.5% after the £2,000 dividend allowance has been used. Thus where husband and wife are 50:50 shareholders they would each pay £2,663 tax on dividends of £37,500 assuming they have no income other than a £12,500 salary, leaving £34,837 net of tax.

So a combination of £12,500 salary and £37,500 in dividends would result in £46,873 (93.7%) net of income tax and NICs.

Ensure dividend payments are legal

The Companies Act requires that companies may only pay dividends out of distributable profits. This means that in the absence of brought forward reserves the company would need to provide for 19% corporation tax in order to pay the dividends and thus there would need to be profits of £92,593 in order to pay dividends of £75,000 (after providing corporation tax of £17,593).

Overall the combination of salary and dividends suggested above would result in net of tax take home cash of £93,746 for the couple out of profits before salaries and corporation tax of £117,593 (20.3% overall tax). This still compares very favourably with the amount of tax and NIC payable if the couple were trading as a partnership.

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DISGUISED REMUNERATION LOAN CHARGE STARTED APRIL 2019

This new charge will apply to certain loans to directors and employees that are still outstanding at 5 April 2019 and new arrangements put in place after this date.

The charge affects arrangements involving loans made via Employee Benefit Trusts (EBTs) and similar disguised remuneration schemes adjudged by HMRC and the courts to be tax avoidance and liable to PAYE and National Insurance Contributions.

There are new reporting and payment obligations that come into force for employers using such schemes from 5 April 2019 Where the employer does not pay the tax and national insurance the liability can be passed to the individual who benefited from the loan.

Where the individual concerned had taxable income in the 2018/19 tax year of less than £50,000 they will be able to repay the liability over 5 years, and spread over 7 years if their 2018/19 taxable income is less than £30,000.

SOME CARS ONLY QUALIFY FOR 6% TAX RELIEF NOW

The latest Finance Act has reduced the tax writing down allowance for motor cars that emit more than 110 grams of CO2 to just 6% on a reducing balance basis from April 2019. In the case of company cars the vehicle is included in the "special rate" pool which means that even when the car is sold the proceeds are deducted from the pool and the 6% allowance continues until the balance is written off. It may be more advantageous to lease such a vehicle - **check with us.**

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'RENT A ROOM' RELIEF TO CONTINUE FOR AIR BNB LANDLORDS

Last year HMRC carried out a review of rent a room relief and it was proposed that the availability of this generous relief would be restricted to situations where the taxpayer was resident for at least part of the time when the "lodger" was paying rent. The scheme currently exempts from tax gross rents up to £7,500 where rooms within the taxpayers' main residence are rented out.

HMRC were concerned that the relief was being "abused" by letting out the entire property using websites such as Airbnb and living elsewhere temporarily whilst the tenants were in the property. An example would be renting out a house in south London during Wimbledon fortnight and potentially receiving up to £7,500 tax free.

Note that the Autumn Budget announced that the proposed restriction was not now being introduced.

BUT POSSIBLE CHANGES TO CGT PRIVATE RESIDENCE RELIEF

The government is currently consulting on important changes to private residence relief that are likely to be introduced from 6 April 2020.

The two possible changes, announced in the Autumn 2018 Budget are:

⇒limit to just 9 months the period prior to disposal that counts as a period of deemed occupation
⇒limit "letting relief" to periods where the taxpayer is in shared occupation with the tenant.

Final period exemption to be reduced

The final period exemption was for many years three years and was always intended cover situations where the taxpayer was "bridging" and waiting to sell their previous residence. However, 36 months was felt to be too generous and was allegedly being abused by a strategy known as "second home flipping". As a result the final period relief was restricted to the current 18 month period of deemed occupation a couple of years ago. The latest proposal is to restrict still further to 9 months although it will remain at 36 months for those with a disability, and those in or moving into care.

Possible Lettings Relief Changes

Lettings relief currently provides a further exemption for capital gains of up to £40,000 per property owner. The additional relief was introduced in 1980 to ensure people could let out spare rooms within their property on a casual basis without losing the benefit of PRR, for example where there are a number of lodgers sharing the property with the owner.

In practice lettings relief extends much further than the original policy intention and also benefits those who let out a whole dwelling that has at some stage been their main residence. It is those situations that the government appear to be attacking under the proposed changes.

Note that those who are renting their property temporarily whilst working elsewhere in the UK or working abroad are unlikely to be affected by this change as there are alternative reliefs available under those circumstances.

Please check with us if you are likely to be affected by the proposed changes as it may be worth considering disposing of the property before the new rules are introduced from 6 April 2020

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Pension Spotlight…

DOCTORS LOBBYING FOR PENSION TAX CHANGES

Hospital doctors and GPs are lobbying the government to amend the pension tax rules as the current system of restricting tax relief on pension contributions means many doctors paying almost all of the extra salary back in tax if they take on additional responsibilities or work additional shifts. **This is an issue that doesn't just affect doctors as it potentially restricts the tax relief available to other individuals with high income.**

The NHS Pension Service have alerted members of the NHS Pension Scheme that they could receive a tax bill if their pension savings exceed limits set by HM Revenue and Customs (HMRC). These limits are known as the annual allowance, which is calculated each year, and the lifetime allowance, which is calculated based on overall pension savings.

The normal annual pension allowance is currently £40,000 each tax year and limits the amount of pension contributions which qualify for tax relief. The limit covers the combined contributions paid by the taxpayer and their employer. A tapered annual allowance was introduced in April 2016 with the intention of reducing pension tax relief for high earners.

It applies to those with adjusted incomes of over £150,000 and threshold income in excess of £110,000. The rate of reduction in the annual allowance is by £1 for every £2 that the adjusted income exceeds £150,000, up to a maximum reduction of £30,000 at £210,000. This is a complex calculation and we can help you plan to minimise the impact of the rules as the individual is taxable on the excess pension contributions over the annual limit.

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Pension Spotlight…

HIGH INCOME CHILD BENEFIT AND STATE PENSION

We recently looked at tax planning to minimise or eliminate the high income child benefit to keep both husband and wife (or civil partners) looking after a child below the £50,000 threshold.

Where the income of one of the individuals exceeds £60,000 such that the whole of the child benefit is taxed they may be tempted not to claim child benefit at all. This may however limit the amount of State pension and other benefits at a later date. Under current rules individuals must make National Insurance contributions for 35 years to receive a full State Pension. Individuals may claim Child Benefit and choose not to receive the payments, which means they do not have to pay the charge, but still receive the associated National Insurance Credits for that year and protect their State Pension entitlement.

Note that grandparents who have ceased working and are looking after their grandchildren may also claim NIC credits for that year which would count towards their 35 year contribution history.

You can check your State Pension online at any time for a forecast of how much you could get. The service will also confirm when you will reach State Pension age, under the law as it stands. Note that Government proposes to increase the State Pension age to 68 from 2037.

REQUEST THAT THE PENSION CHARGE IS PAID BY YOUR FUND BY 31 JULY

The Pension Annual Allowance tax charge depends on the individual's marginal rate of tax. Where their income exceeds £150,000 it would be at 45%. Thus if the pension input for 2018/19 was £40,000 and the limit is tapered to £10,000 the excess of £30,000 would incur a £13,500 tax bill on top of their normal tax liability.

You can ask your pension provider to pay HMRC out of your pension fund if you've gone over your annual allowance and the additional tax is more than £2,000. The deadline is 31 July 2020 for the 2018/19 tax year.

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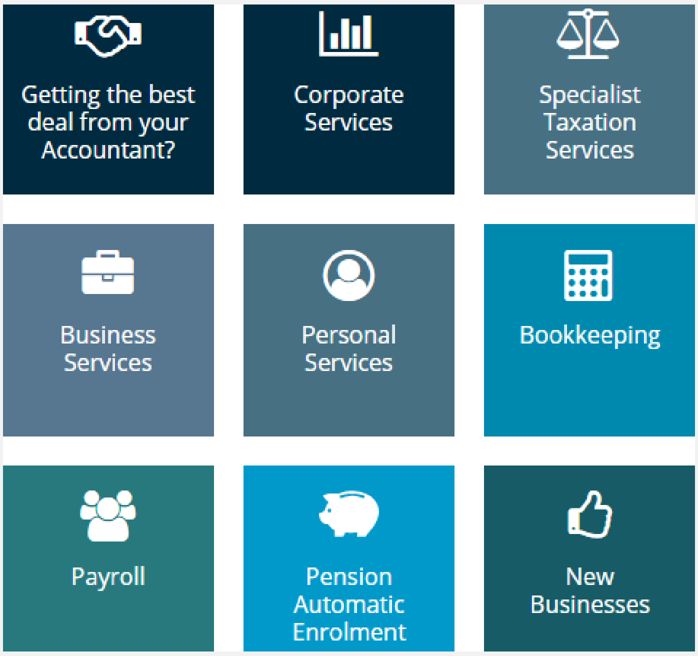
MNA WEBSITE



Remember we have a comprehensive website at https://www.marslandnash.com which contains full details of all of our services, as well as:-

- ⇒ Latest accounts and tax news
- ⇒ Downloads section which includes all our newsletters
- ⇒ Filing deadlines pages
- ⇒ Current tax rates and information pages

Plus much more!

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