MNA News Wire

MARSLAND NASH ASSOCIATES

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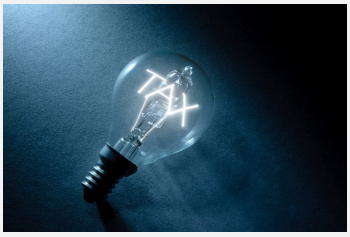
CONTENTS

DO YOU REALLY NEED TO PAY HIGHER RATE TAX?



Whilst most people will agree that we pay tax to keep the country running, most of us would be happier if we could find a way to persuade the tax man to take a little less of our hard earned cash.

There is a simple way to for most of us to pay less tax. It is perfectly legal, and all it takes is a little forward planning and making careful tactical use of your pension.

The key to cutting your tax is to understand tax thresholds. Most of us are concerned with two thresholds, the personal allowance threshold, the point at which we start paying income tax, and the higher rate income tax threshold, where tax starts to be charged at 40%.

There is also an additional rate threshold for those earning over £150,000 which sees them paying 45% tax.

The Chancellor confirmed in the recent budget that these thresholds would be revised upwards. The lower, personal allowance will rise from £11,850 to £12,500 from next April. The threshold for higher rate tax will rise from £46,350 to £50,000.

So, for the 2019/20 tax year, if you want to avoid paying 40% tax, you need to be earning under £50,000 a year. You probably don't want a salary reduction, but there is another way to reduce your taxable salary.

The contributions you make into your pension are deducted from your salary before your tax is calculated. So, in effect, paying into your pension reduces your taxable salary.

So, if you earn £60,000 a year and pay 10%, or £6,000, into your pension, then your taxable salary will be £54,000. This is above the higher rate tax limit, and you will be paying 40% of £4000, or £1,600 to HMRC.

But if your salary is £60,000 and you contribute 17.5% - £10,500 - to your pension, then your taxable salary falls to £49,500. This is below the new higher tax threshold, and you pay 20% tax on all your earnings.

In addition, thanks to the way the pension system works, you will still enjoy 40% tax relief on the relevant contribution, meaning that your £10,500 puts a great deal more into your pension pot.

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Class 2 NICs to Continue for Self-Employed

In 2016 the government consulted on a proposed abolition of Class 2 National Insurance contributions (NICs) for the self-employed. This flat rate contribution, currently £2.95 a week is payable by the self-employed in addition to Class 4 contributions based on the level of profits. The flat rate contributions were due to cease on 5 April 2019 but will now continue "for the life of this parliament".

The reason for the u-turn concerns businesses owners with low profits or making losses. In order to maintain their NI contribution record, many self-employed individuals voluntarily continue to pay Class 2 contributions despite their profits being below the £6,205 small earnings exemption. Having a full NI contribution history helps maximize an individual's entitlement to State Benefits. For example full State Pension entitlement requires 35 years contributions.

With the abolition of Class 2 NICs, those with low profits or making losses would need to make voluntary Class 3 contributions (currently £14.65 a week, £761.80 a year) in order for that year to count as a contribution year.

Check Your Contribution History

As mentioned above, in order to maximise entitlement to full State Benefits a full contribution record Is required. It is possible to check your National Insurance record online to see:

- what you've paid, up to the start of the current tax year 6 April 2018)
- any National Insurance credits you've received
- if gaps in contributions or credits mean some years don't count towards your State Pension (they aren't 'qualifying years')
- if you can pay voluntary contributions to fill any gaps and how much this will cost

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TAX EFFICIENT CHILDCARE SCHEMES

In 2018 the government announced that no new childcare voucher schemes could be set up after 5 October 2018. This was a six month extension from the previous 5 April 2018 end date. If those employers offering such schemes at 5 October are prepared to keep administering their scheme then they will continue to be available but will eventually be phased out.

The current scheme allows employers to provide vouchers to employees to pay for care of their children up to age 16. Vouchers to the value of £55 a week can be provided tax free to basic rate taxpayers with differing tax free amounts for higher rate and additional rate taxpayers.

The replacement scheme is the government's "tax free" childcare account which started in 2018 for children up to age 12. Under this scheme the government tops up the savings in the childcare account by 25% up to £2,000 per child per year (£4,000 for a disabled child).

Thus, savings of £8,000 would be topped up by the government to £10,000 and the £10, 000 could then be used to pay Ofsted registered childcare providers such as nursery fees, childminders, after school clubs and summer camps.

Unlike childcare vouchers, the new childcare accounts will be available to both employees and the self-employed.

For those already in childcare voucher schemes it may be beneficial to switch to the new childcare account and we can help you calculate whether or not that would be beneficial.

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ANNUAL INVESTMENT ALLOWANCE INCREASED TO £1m

The Annual Investment Allowance (AIA) which provides businesses with a 100% write off against profits when they acquire plant and machinery has been temporarily increased from £200,000 to £1 million for two years from 1 January 2019. This will again mean that the timing of expenditure will be critical. It may be advantageous to delay expenditure until after 1 January 2019 to get full benefit in certain circumstances.

However, the current enhanced capital allowance for energy efficient plant will be abolished from April 2020. A further change is that the writing down allowance for special rate pool equipment, broadly long-life assets and fixtures in buildings, is being reduced from 8% to 6% from April 2019.

COMPANY TAX TO REDUCE TO 17%

As previously announced the current 19% rate is scheduled to reduce to 17% from 1 April 2020.

NEW CAPITAL ALLOWANCE FOR COMMERCIAL BUILDINGS

A new 2% straight line tax deduction is being introduced for the cost of construction or renovation of commercial buildings and structures.

This tax break will apply to eligible construction costs incurred on or after budget day and will be available to commercial property landlords as well as trading businesses. The cost of the land is specifically excluded.

R & D TAX CREDIT RESTRICTED

The amount of repayable R&D tax credit for Small and Medium Sized Enterprises (SMEs) will again be restricted by the amount of the claimant company's PAYE and NIC liability from April 2020.

The new limit will be set at three times the company's total PAYE and National Insurance contribution (NICs) payment for the period.

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CAPITAL GAIN ENTREPRENEURS' RELIEF CHANGES

The Chancellor has announced that the minimum qualifying period for CGT entrepreneurs' relief will be increased from 12 months to 24 months for disposals on or after 6 April 2019.

There are further changes affecting shareholdings in personal companies. In addition to the individual holding 5% or more of the ordinary share capital and voting control they will also now be entitled to 5% or more of the company's distributable profits and assets in a winding up. As now the individual must also be an officer or employee of the company concerned; and the company must be a trading company or the holding company of a trading group.

VAT REGISTRATION LIMIT CONTINUES TO BE FROZEN

The VAT registration limit normally increases in line with inflation each year. However, It was announced last year that the limit would be frozen at £85,000 until 1 April 2020. It has now been announced that the limit will now remain at the same level until 2022. The deregistration limit will remain at £83,000.

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GIFTS OF UP TO £50 TO EMPLOYEES

From April 2016 new rules were introduced to allow employers to provide their directors and employees with certain "trivial" benefits in kind tax free.

The new rules were brought in as a simplification measure so that certain benefits in kind do not now need to be reported to HMRC as well as being tax free for the employee. There are of course a number of conditions that need to be satisfied to qualify for the exemption. Conditions for the exemption to apply

- the cost of providing the benefit does not exceed £50
- the benefit is not cash or a cash voucher
- the employee is not entitled to the benefit as part of any contractual obligation such as a salary sacrifice scheme
- the benefit is not provided in recognition of particular services performed by the employee as part of their employment duties (or in anticipation of such services)

So this exemption will generally apply to small gifts to staff at Christmas, on their birthday, or other occasions and includes gifts of food, wine, or store vouchers.

Note that where the employer is a "close" company and the benefit is provided to an individual who is a director or other office holder of the company the exemption is capped at a total cost of £300 in the tax year.

GIFTS TO CHARITY

Where possible, higher rate taxpayers should "Gift Aid" any payments to charity to provide additional benefit to the charity and for the individual to obtain additional tax relief on the payment.

For example where an individual makes a £20 cash donation to charity the charity is able to reclaim a further £5 from HMRC making a gross gift of £25. Where the individual is a 40% higher rate taxpayer he or she is able to claim a further £5 tax relief under self-assessment, reducing their net cost to £15.

Note that the donor is required to make a declaration that they are a UK taxpayer and those that have not suffered sufficient UK tax to support the Gift Aid amount will be taxed on the shortfall.

Remember that Gift Aid does not just apply to gifts of cash. Many charity shops will now sell your donated items on your behalf and are able to treat the sale proceeds as Gift Aided donations. It is also possible to gift quoted securities and land and buildings to charity and claim Gift Aid on the market value of those assets.

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UPDATE ON GIFTS AND INHERITANCE TAX (IHT)

Those thinking about making a financial gift should take advantage of the various inheritance tax (IHT) exemptions and reliefs available to them. Note that certain gifts can also have capital gains tax (CGT) implications.

THE IHT ANNUAL EXEMPTION - USE IT OR LOSE IT!

Although not particularly generous at £3,000 per donor per annum if this annual IHT exemption is not used by 5 April it is lost, although it is possible to carry the allowance forward one year if unused. This means that if the annual allowance for 2017/18 was not used an individual may make gifts of up to £6,000 in 2018/19.

Where the gifts to individuals exceed the annual exemption there may still be no inheritance tax to pay if they survive for 7 years following the gift or the gift falls within the £325,000 nil rate band.

GIFTS OUT OF INCOME ARE NOT TAKEN INTO ACCOUNT FOR IHT

A more generous inheritance tax exemption applies where the donor can prove that he or she is not transferring capital but is making gifts out of their income. There are detailed conditions for this exemption to apply requiring records to be kept of income and expenditure in order to prove that there is sufficient surplus income each year to make regular gifts to the beneficiaries. We can of course assist you in keeping the necessary records to satisfy HMRC.

CERTAIN GIFTS CAN HAVE CAPITAL GAINS TAX CONSEQUENCES

Although there will be no CGT on gifts of cash there may be CGT to pay where the gift comprises shares or other assets. This is because the transaction will generally be deemed to take place at market value between connected persons even though no money changes hands.

The amount of the gain would normally be determined by comparing the market value with the original cost of the asset gifted. Where the amount of this gain is within the annual CGT allowance (currently £11,700) then there would be no CGT payable.

Where the gift comprises shares in a trading company or other business assets it may be possible for donor and recipient to sign an election to hold over the gain so that no CGT is payable by the donor at the time of the gift. The effect of such an election is that the recipient of the asset will take over the donor's original cost for subsequent disposal. Please get in touch with us if you are considering making gifts of shares or other assets so that we can advise you fully of all the tax implications.

NOT ALL SHARES QUALIFY FOR CGT ENTREPRENEURS' RELIEF NOW

As the result of changes announced in the Autumn Budget, and now incorporated into the latest Finance Bill, not all ordinary shares necessarily qualify for the 10% CGT entrepreneurs' relief rate on disposal.

As mentioned in the last Budget newsletter the definition of a personal company was tightened up so that from 29 October 2018 the shareholder must have entitlement to at least 5% of the company's ordinary share capital, voting rights, profits available for distribution, and assets available on the winding up of the company. The shareholder, as before, will also need to be an officer or employee of the company.

This change means that certain "alphabet" and other shares with limited rights may no longer qualify for CGT entrepreneurs' relief when disposed of. As a consequence of this change we may need to review the rights attaching to the shares that your company has issued and make changes to ensure that the shares qualify.

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ADVISORY FUEL RATE FOR COMPANY CARS

These are the suggested reimbursement rates for employees' private mileage using their company car from 1 September 2018.

Where there has been a change the previous rate is shown in brackets.

Engine Size	Petrol	Diesel	LPG
1400cc or less	12p (11p)		7p
1600cc or less		10p	
1401cc to 2000cc	15p (14p)		9p
1601 to 2000cc		12p (11p)	
Over 2000cc	22p	13p	13p (14p)

For hybrid cars use the equivalent petrol or diesel rate. However, for wholly electric cars there is a new 4p advisory rate from 1 September 2018.

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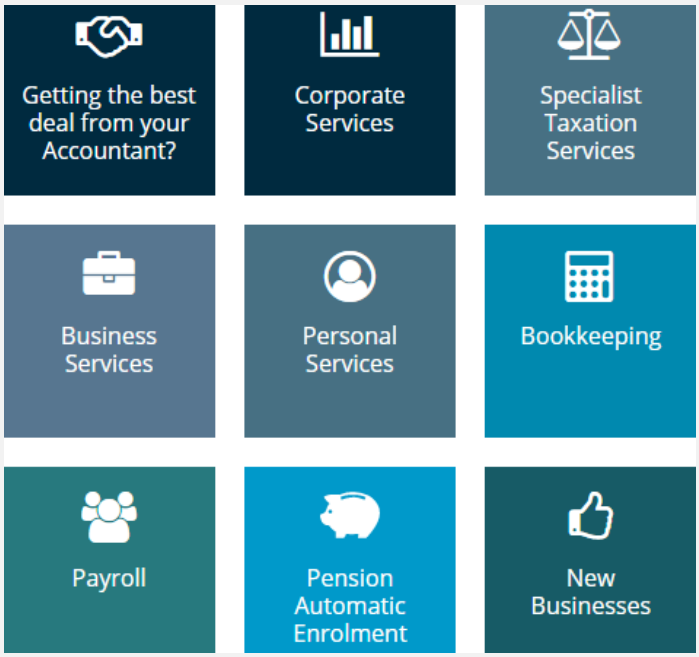
MNA WEBSITE



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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