

Welcome...

To December's Tax Tips & News, our newsletter designed to bring you tax tips, business growth advice and news to keep you one step ahead.

We are committed to ensuring none of our clients pay a penny more in tax than is necessary and they receive useful tax and business advice and support throughout the year.

Please contact us for advice in your own specific circumstances. **We're here to help!**

Understanding and avoiding 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 taxman 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.

Inheritance Tax – 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.

Getting your business ready for 2019!

What should you be doing over the next few months to strengthen your business and get it ready to take advantage of any upturn? The most profitable businesses have two key things in common:

1. They plan and budget ahead and monitor how they are doing monthly.
2. They understand that in business, as in life, unexpected situations arise and they need to have spare resources to protect themselves or to invest in a new opportunity.

So, what should you be doing now to plan ahead?

It's a good idea to set aside a half day for this activity and to think about where you want your business to be in twelve months, what your turnover and profit would be - and write these down.

Remember, the easiest way to grow your business is keep your existing customers happy, so ask yourself "How are we doing in this area, what are our competitors doing, can we improve, how do we get recommendations from existing customers, how do we exceed customer expectations"?

Consider how you attract new customers to your business, what marketing do you need to do and who is going to do it?

Write an action plan and EVERY MONTH review how you are doing against the plan. Use the plan as your key indicator of how well you are doing towards your annual target.

What if something unexpected should occur?

Plans change, sometimes for the good and sometimes the other way. The first rule of business is always put some of your profit away for that unexpected opportunity or event.

How much should you have in reserve? This depends on a variety of things such as the volatility of your industry, market conditions and your own personal circumstances, but as a rule of thumb, think about what would happen if you lost your largest 5 customers?

What money would you need to have in reserve to go out and replace them, or if you have many smaller customers, what would happen if your suppliers went out of business - would you need to resource the product elsewhere? Essentially think about the risks you face that you cannot insure against.

VAT reverse charge in the construction industry

Autumn Budget 2018 announced a new measure, designed to counter fraud in the construction industry, which has seen gangs of criminal traders artificially extending the chain of supply of labour services, then failing to account for all the output VAT due to HMRC by collecting the VAT on the supplies (sales) and then going "missing" before passing the VAT on to HMRC.

The proposed change, which is scheduled to take effect from 1 October 2019, will mean that for certain specified supplies of construction services, **the customer will be liable to account to HMRC for the VAT in respect of those purchases rather than the supplier** (this is commonly known as the 'reverse charge'). The reverse charge will apply through the supply chain where payments are required to be reported through the Construction Industry Scheme (CIS) up to the point where the customer receiving the supply is no longer a business that makes supplies of specified services - these businesses are referred to as 'end users'.

The reverse charge will exclude businesses that supply specified services to connected parties within a corporate group structure or with a common interest in land. In these circumstances, the supplies in question will then revert to normal VAT accounting rules.

The VAT treatment of construction services supplied to unregistered customers will remain the same. So, in such cases, the supplier will retain responsibility for charging VAT and accounting for it to HMRC.

HMRC estimate that this measure will impact on up to 150,000 businesses in the construction and building sector. However, the draft legislation was revised at draft stage to ensure that the reverse charge will only apply where the payment for the supply needs to be reported for CIS purposes. This will automatically remove many end users from its scope without the need for further consideration.

There is one area in particular where this change may cause problems. The receipt of reverse charge supplies is treated as part of a person's taxable turnover for the purposes of the VAT registration threshold. This means that receiving certain supplies from 1 October 2019 could result in a trader, whose sales were previously below the threshold, becoming liable to register for VAT. In the Budget, the Chancellor confirmed that this treatment could be disapplied in relation to any specified VAT reverse charge if HMRC deem it necessary. Any affected businesses should, however, proceed with caution.

Gifts out of income are not taken into account for Inheritance Tax

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.

December questions and answers

Q. I am aware that there is to be a temporary increase in the limit for claiming Annual Investment Allowances. Are all assets eligible for the allowance?



A. Unfortunately not all expenditure on plant and machinery will qualify for annual investment allowances (AIA). The most common examples of assets that are not eligible are cars and assets that have been used for some other purpose before being brought into the business, for example a personally owned computer. These assets should still qualify for capital allowances, but allowances will be given gradually over several years, rather than the full cost being allowed against income all at once, which is what the AIA gives.

The AIA was set at its current level of £200,000 from 1 January 2016, but it was announced in the 2018 Autumn Budget that, subject to enactment, the limit will be increased to £1,000,000 from January 2019.

Q. Due to cash flow difficulties I have not yet paid my self-assessment payment on account, which was due on 31 July 2018. I realise that I will have to pay interest on the amount outstanding, but will I also have to pay a penalty?

A. As you correctly say, HMRC will charge interest on the overdue amount. The charges will accrue from the due date of payment (31 July 2018) to the date the payment is made. The interest rate for late paid tax was increased on 21 August 2018 from 3.00% to 3.25%.

With regards to penalties, you will only be charged if your balancing payment (due 31 January 2019) is late. The penalties for late payment under self-assessment are as follows: - 30 days late: 5% of the unpaid tax, - 6 months late: additional 5% of the unpaid tax, - 12 months late: additional 5% of the unpaid tax.

HMRC may reduce a late payment penalty in 'special circumstances', which does not include inability to pay. In addition, a defence of 'reasonable excuse' may be available.

In relation to payments on account, the maximum penalty for fraudulent or negligent claims by taxpayers to reduce payments on account is the difference between the correct amount payable on account and the amount of any payment on account made.

Q. Following the 2018 Autumn Budget announcement, will my company's capital losses be restricted?

A. Under current proposals, from 1 April 2020, a company's use of carried-forward capital losses will be restricted to 50% of capital gains.

However, to ensure that the restriction only impacts on companies making substantial gains, the Government proposes to extend the allowance of £5 million (provided for the corporate income loss restriction) to capital losses as well. This is designed to ensure that over 99% of companies remain financially unaffected by both restrictions.

A consultation paper was published on 29 October 2018 and it is expected that draft legislation will be published in summer 2019. An anti-forestalling measure, details of which can be found in chapter 4 of the consultation document, took effect from 29 October 2018.

Q. Are there any advantages to registering voluntarily for VAT even if my taxable turnover is less than the registration threshold?

A. A business can register for VAT even if its turnover (total sales) is below the threshold and it may actually save tax by doing so, particularly if its main clients or customers are organisations that can reclaim VAT themselves.

Say you want to purchase a new office printer for your business which costs £100 plus VAT, i.e. £120. You set the £120 paid out against your profits for income tax purposes. If you are a basic rate taxpayer paying tax at 20%, this deduction will save you £24 on your tax bill (20% of £120), so the printer actually costs you £96.

However, you were registered for VAT, you can reclaim the £20 VAT paid on the item (the input tax) and set £100 against your profits for income tax. The tax reduction is therefore £20 (20% of £100) and the printer costs the business just £80 - so £16 is saved by being registered for VAT.

VAT-registered businesses supplying goods and services to private individuals often feel dis-advantaged compared to their non-registered counterparts because they have to charge an additional 20% on every bill issued.

Q. What counts as a gift for inheritance tax purposes?

A. The broad answer is that for inheritance tax purposes, a gift is anything that has value, for example, money, property or possessions. However, a gift may also arise if the value of an individual's estate is reduced following a transfer of value, for example, if you sell your house to your children for less than it is worth; the discount element will be treated as a gift.

Gifts to spouses and civil partners are free of inheritance tax.

The IHT annual gifts exemption allows individuals to give away £3,000 of gifts in total each tax year. If the exemption is not used in full in one tax year, the unused amount can be carried forward to the following year, after which it is lost if it is not used.

Tax-free gifts can also be made, up to certain limits, on the occasion of a marriage or civil partnership. The tax-free limit for wedding gifts is £5,000 where the gift is to a child of yours, £2,500 where it is to a grandchild and £1,000 where the gift is to someone else.

Other small gifts of up to £250 per person, per year can be made free from IHT. Such gifts can be made to as many people as you like, as long as the recipient has not benefited from another exemption.

There is also a useful IHT exemption for 'normal expenditure out of income', which may be used to make tax-free lifetime gifts. It is often used by grandparents to pass money to grandchildren (say by way of a monthly standing order), or to pay for school fees. For the exemption to apply, the gift must satisfy the following conditions:

- it must form part of the donor's regular expenditure
- the gift must be made out of income (taking one year with the next)
- the donor must retain sufficient income to maintain their normal standard of living.

Gifts made in this way are completely exempt from IHT - they are not subject to the seven year rules applicable to Potentially Exempt Transfers (PETs).

Q. I am a builder. I have recently started operating the construction industry scheme (CIS) although it is still quite new to me. I have recently taken on two labourers, both of whom are registered with HMRC as subcontractors. One of the subcontractors worked for me 3 months ago, the other has never worked for me. Could you please clarify what I need to do with regards to deducting tax from their wages?

A. Before you can pay a new subcontractor, you need to 'verify' them with HMRC. HMRC will tell you:

- whether they're registered for the CIS; and

- what rate of deduction to use or if they can be paid without making deductions.

You do not, however, need to verify a subcontractor if you have included them on a CIS return in the current or last 2 tax years.

The CIS deduction rates are currently as follows:

- 20% for registered subcontractors
- 30% for unregistered subcontractors
- 0% if the subcontractor has 'gross payment' status - for example they don't have deductions made

You are required to remit these deductions to HMRC as they count as advance payments towards the subcontractor's tax and National Insurance bill.

Need Help?

Please contact us if we can help you with these or any other tax or accounts matters.



We are committed to ensuring that all clients receive useful tax and business advice and ongoing support throughout the year. If you have a business problem (or opportunity) to discuss please call us.

In addition, if there's anyone else who you think would benefit from the newsletter, please forward the email to them or ask them to contact us to be added to the newsletter list.

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