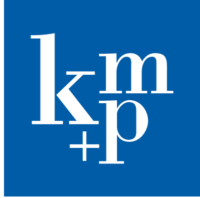

taking care of business

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NEWSLETTER
WINTER 2019

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INTRODUCTION

This newsletter will be distributed ten days before the 12th December general election. Readers may now be more informed regarding the outcome than our editors as this text is written.

At this time of the year we would usually be commenting on the contents of the autumn budget, not so for 2019. For the first time in many years the UK government has not presented a Finance Bill to parliament. It is expected that one will be presented by the new government, presumably after the Christmas holidays.

In the meantime, back at the coal face, we need to stay focussed while politicians try and sort themselves out. Brexit will obviously be high on the agenda for the new administration as the eventual shape of our exit is still unknown.

To assist readers, we are focussing in this issue on changes to the UK tax system that are already agreed for 2020 and other topics that will help you meet the challenges ahead.

BUSINESS

Make New Year business resolutions

This is not the place to discuss your personal options, but this is an ideal time to consider your business and personal financial planning options for 2020.

What are your options?

If Brexit, as it seems likely, has a depressive effect on the UK economy, we may be pushed back into a mild recession. If so, the enthusiasm for investment will decline and businesses will hoard cash.

Accordingly, you might like to consider your present cash position, plan for a levelling off or decline in your sales and increased pressure on your margins as

competitors seek to maintain their competitive advantage; and, you will need to invest some time in considering the effects of any disruption to your supply lines.

There has never been a more appropriate time to prepare a formal business plan.

Ideally, the numbers should be entered into your accounts software so that you can closely monitor what is happening to you financially compared to your expectations. In this way you can take remedial action as events unwind rather than considering the mess left behind if you take your eyes off the road ahead.

We can help. Please call so we can make a start on finding the best-fit solution for your business. 2020 will likely be a challenging year. Be prepared.

Why the annual stock take is important

If we take it as a given that the best information to help you run your business is an accurate calculation of your profitability and net worth, then trying to produce a realistic stock valuation at your year end will make a real contribution.

Why is an annual stocktake important?

Stock is an asset. It should represent those purchases of goods that you have made that are unsold at your year end. In effect, you are removing purchases of goods from your profit statement and placing them on your balance sheet.

If stock valuations are something that you figure out by guess-work then it is very unlikely that your trading profits will be stated correctly in your accounts; it may also mean that you may make decisions that prove to be costly.

For tax and accounting purposes, stock should be valued at cost unless its net realisable value is lower than cost, in which case it should be valued at the lower figure.

If you are carrying a significant level of redundant stock, and there is little chance that it can be used in future trading, not only should you reduce its value, you should also consider a sale or scrappage scheme. Taking up productive space with stock that will not be sold makes no sense.

It is only by undertaking the above review of your stock that your profits will be accurately stated.

If you carry significant levels of raw materials or finished goods and you need a shake-out of obsolete items, we can help. Let us assist at your next stocktake; create a realistic valuation and identify slow moving items that may need to be thinned out. Without undertaking this process your management accounts may be misleading.

Tax planning options for 2019-20

Options for taking advantage of numerous tax planning opportunities for 2019-20 ends on 5 April 2020. This applies to individuals and all businesses with an accounting year end close to, but prior to 5 April 2020.

More importantly, this planning option

applies to all taxes: Income Tax, Capital Gains Tax and Corporation Tax; and in some cases, to National Insurance and VAT.

Organise a tax planning review now

If your personal or business tax affairs are complex, make sure you avail yourself of this moment of reflection before 5 April 2020. Once the date is passed, there is no chance the clock can be turned back.

2020 is set to be another turbulent year as we are still facing continuing uncertainty regarding Brexit and resolving the present political hiatus.

There has never been a more opportune moment to take time out from running your business and personal finances to consider your planning options.

When accounts need to be audited

The current regulations state that company accounts may be exempt from a requirement to audit those accounts if at least two of the following three conditions apply. The company has:

1. an annual turnover of no more than £10.2 million,
2. assets worth no more than £5.1 million,
3. 50 or fewer employees on average.

Notwithstanding these conditions, shareholders can request an audit. The shareholders must own at least 10% of shares, by number or value. These can be a group of shareholders or an individual. They must make a written request and send it to the company's registered office.

The request must arrive at least one month before the end of the financial year for which the audit is requested.

The following companies must have an audit:

- A public company (unless it is dormant)
- A subsidiary company (unless it qualifies for an exception)
- An authorised insurance company or carrying out insurance market activity
- Involved in banking or issuing e-money
- A Markets in Financial Instruments Directive (MiFID) investment firm or an Undertakings for Collective Investment in Transferable Securities (UCITS) management company
- A corporate body and its shares have been traded on a regulated market in a European state.

NIC & PENSIONS

Benefits and NIC

Although most taxable benefits do not create a National Insurance charge (NIC) for the employees that receive the benefits, for example a company car, they do create an employer's NIC liability.

The rate of NIC charged on the total taxable benefits provided by reason of their employment is presently 13.8%. The contributions are labelled Class 1A and the conditions that must apply before the employer is liable, are:

- the benefit must be from, or by reason of, an employee's employment and must be chargeable to Income Tax under the appropriate legislation,
- the employment must be 'employed earner's employment' under social security law and employment as a director or an employee, and
- the benefit must not already attract a Class 1 NIC liability.

This means that benefits provided to directors and others in a controlling position in a company, employees and members of the family or households of

these individuals are potentially subject to this employer's NIC charge.

Not all benefits are subject to Class 1A NIC. Some are subject to regular Class 1 NIC and some are exempt. There is not enough space in this article to list all the variations.

The reporting of Class 1A is rigorously applied by HMRC. There are penalties for failing to send in the annual return and further charges if you are late paying any NIC due.

If you are contemplating the provision of benefits for the first time we suggest you call us so that we can advise you on your employer NIC liabilities, how to calculate amounts due and how and when to make returns to HMRC.

Tax relief on pension contributions

Most personal and stakeholder pension providers take basic rate Income Tax into account when you make your contributions. In effect, you pay the net of tax amount into your pension and your pension provider adds the basic rate Income Tax amount (presently 20%) to your pot, recovering the tax from HMRC.

Consequently, if you are a basic rate taxpayer, the Income Tax aspects are handled – in most cases – by your pensions company.

But what if you pay tax on your income at 40% or 45%?

If you are a higher rate (or additional) rate taxpayer you will need to claim an additional 20% or 25% relief on your tax return. If you are not required to submit a

tax return you will need to contact HMRC with the details.

A final interesting planning point. You can still get a 20% uplift in your contributions (on the first £2,880 of contributions made) even if you do not pay tax, for example, if you are on a low income.

PERSONAL

Can you claim the Marriage Allowance?

The Marriage Allowance lets you transfer £1,250 of your Personal Allowance to your husband, wife or civil partner.

This can reduce their tax by up to £250 every tax year.

To benefit as a couple, you need to earn less than your partner and have an income of £12,500 or less. Your partner's income must be between £12,501 and £50,000 (£43,430 in Scotland) for you to be eligible.

You can backdate your claim to include any tax year since 5 April 2015 that you were eligible to claim the Marriage Allowance. If your partner has since died you can still claim - phone the Income Tax helpline for more information.

Before you apply you will need yours and your partner's National Insurance number.

If you have come to the UK and you do not plan to work or study, you cannot get a National Insurance number. Phone the Income Tax helpline to apply for Marriage Allowance.

You also need a way to prove your identity. This can be one of the following:

- The last 4 digits of the account that your child benefit, tax credits or pension is paid into.
- The last 4 digits of an account that pays you interest.
- Details from your P60.
- Details from any of your 3 most recent payslips.
- Your passport number and expiry date.

You can apply online and you will get an email confirming your application.

It's that time of year

Although the time limit for filing your 2018-19, self-assessment tax return is on or before 31 January 2020, there are compelling reasons for tackling this annual filing chore sooner rather than later.

For example, if you have underpaid tax to 5 April 2019, this would be due for payment 31 January 2020. On the same date, 31 January 2020, you may also be required to make a payment on account for 2019-20; initially this will be based on 50% of your self-assessment liability for the previous year, 2018-19.

Which begs the question, would you prefer to know sooner rather than later how much you need to pay HMRC?

At one extreme, if you leave the calculation and filing to the last minute, say midnight 31 January, you will be required to pay any taxes due immediately. Alternatively, if you collect together and process your tax return data, say in June each year, you will be able to accurately forecast liabilities almost seven months before payment is due.

And what if you are due a tax refund? Why leave your money with HMRC a minute longer than is necessary?

Certainly, we encourage our clients to adopt an early-bird approach, apart from

the advantages for clients, this precludes our having to work seven days a week in January each year processing returns where we have only just received the information.

Please note that we offer a comprehensive tax filing and planning service. Please call if you need help with this annual chore.

30 days to file and pay

From April 2020, sales of residential property that attract a Capital Gains Tax (CGT) charge will need to be reported to HMRC within 30 days of the relevant disposal. Any CGT payable as a result of the disposal will need to be paid within the same 30 day window.

Property owners that sell their home are unaffected if they can claim the Private Residence Relief: this exempts any profit you may make on the sale of your home as long as the property has been used as your main residence for the entire period of your ownership.

Buy-to-let property owners and individuals with a second home - a holiday home for example - will be subject to the new rules from April 2020.

This is a draconian change in the tax management of affected property disposals. Before 6 April 2020, chargeable disposals need to be included as part of a tax return for the

relevant tax year. For example, disposals during the year to 5 April 2020 should be included on a return for 2019-20. The filing deadline for this return is 31 January 2021 and the payment date of any CGT due is the same date, 31 January 2021.

Disposals after 5 April 2020, say 1 May 2020, will be subject to the new rules. A formal computation of any gain and CGT payable will need to be filed with HMRC by 31 May 2020, and any tax due paid on the same date.

As your adviser, this means that we will need to be aware of your intended disposal and be advised of all the relevant data to prepare and submit a return to HMRC. Information required will include details of:

- the purchase costs including legal and other professional charges;
- any property improvements;
- any periods when you may have occupied the property as your main residence;
- the sale particulars – usually the completion statement from your solicitor.

We suggest that readers who are contemplating the sale of a residential property - subject to a CGT charge - consider a sale before 6 April 2020. In this way you will avoid the post April 2020 changes and have more time to return gains to HMRC and pay any tax due.

Beware this Child Benefit tax charge

If you or your partner claim Child Benefits and if either of you has income approaching or in excess of £50,000, you should read the following notes that describe the High Income Child Benefit charge.

In a nut-shell, you may have to repay some or all of the Child Benefits you have received if the income of the highest earner exceeds £50,000. Once the highest earner's income reaches £60,000, all of the Child Benefit received will be recovered by the tax charge.

To declare your liability you are required to submit a self-assessment tax return.

If both partners have income in excess of £50,000, the partner with the highest income will be subject to the charge.

You can opt-out, and stop your Child Benefit payments, but beware of taking this course of action as it could affect future benefits.

For example, where a parent stays at home to take care of children, opting-out of receiving Child Benefits may mean that National Insurance credits that would count towards the State Pension entitlement may be lost.

Changes to Private Residence Relief from April 2020

Most of us assume, and in most cases correctly so, that when we sell our home there will be no CGT to pay on any uplift in value since we purchased the property.

This tax-free status is enshrined in the exemption described as Private Residence Relief (PRR).

PRR confers a 100% exemption from CGT as long as the property has been your main residence throughout your ownership; but what if you have let your property or dedicated a significant part of the property solely for business purposes?

In both these cases, letting or business use, PRR will be reduced and part of any gain on sale may well be taxable.

As always, HMRC has created complex rules to manage this apportionment process and from April 2020, it is reducing some of the subsidiary reliefs - letting relief and the final period exemption - both of which reduce any eventual tax charge.

In more detail these changes are:

Lettings relief (LR)

If you have let your home for any period you can presently claim LR up to a limit of £40,000. From April 2020, this relief will only be available if you share the occupancy of your home with a tenant.

Final Period Exemption (FPE)

This additional relief allows you to treat the final eighteen months of ownership as if you were in residence even if the property was let during this period.

Initially, this relief was introduced to cover a situation where a homeowner may have moved to a new house prior to selling their property.

From April 2020, this period is being reduced to nine months.

Planning options

Accordingly, homeowners considering the sale of their property and who have or are letting out their home, have a window of opportunity to benefit from the higher LR and FPE extensions to PRR if they complete their sale before 6 April 2020.

If you find yourself in this situation please call so that we can help you consider the scope and range of reliefs you could claim.

VAT & DUTIES

About to register for VAT?

All VAT registered businesses with turnover in excess of the current

registration threshold, £85,000, will need to ensure that they are using accounts software that is compatible with the Making Tax Digital (MTD) regulations. After registration, affected businesses will have to:

- keep their records digitally (for VAT purposes only), and
- provide their VAT return information to HMRC through MTD functional compatible software

If you need help choosing a suitable accounting software product, please call, we can help.

VAT surcharges and penalties

A reminder that HMRC will record a 'default' if they do not receive your VAT return by the filing deadline or full payment for the VAT due on your return has not reached their account by the due date.

You may enter a 12-month 'surcharge period' if you default. If you default again during this period the surcharge period is extended for a further 12 months and you may have to pay an extra amount (a 'surcharge') on top of the VAT you owe.

If you submit a late return, you will not have to pay a surcharge if you: pay your VAT in full by the deadline, have no tax to pay or are due a VAT repayment.

The amount of the surcharge you pay is a percentage of the VAT outstanding on the due date for the accounting period that is in default. The surcharge rate increases every time you default in a future surcharge period.

HMRC can also charge you a penalty of up to:

- 100% of any tax under-stated or over-claimed if you send a return that contains a careless or deliberate inaccuracy,
- 30% of an assessment if HMRC sends you one that is too low and you do not tell them it is wrong within 30 days,
- £400 if you submit a paper VAT Return, unless HMRC has told you you are exempt from submitting your return online.

Any surcharge you pay will be treated as an expense in your accounts but will be added back when working out your business tax bill.

Unfortunately, surcharges and penalties are not a valid deduction for tax purposes.

If you are currently in arrears with your VAT obligations why not consider outsourcing? We can assist. Call us to discuss your options.

EMPLOYMENT & PAYROLL

Payroll giving

It is possible to set up a payroll giving scheme such that your employees pay the contributions before any tax is deducted. In this way they immediately secure any tax relief to which they are entitled.

You would make deductions each time you run your payroll and send the donations deducted to a Payroll Giving Agency. They in turn will transfer the funds to your chosen charities.

Approved agencies are listed on the gov.uk website.

MISCELLANEOUS

National Living Wage announcement

The government has published an independent review into the evidence on minimum wage rates in the UK.

The review, published Monday 4 November, concludes that minimum wage increases in a range of countries have had a negligible or zero effect on jobs, but have significantly increased the earnings of the lowest paid. The Chancellor has pledged a more ambitious National Living Wage (NLW), so that on current projections it is set to reach £10.50 per hour by 2024,

The previous NLW target was to reach 60% of median earnings by 2020. In line with the conclusions of the Dube Review, Chancellor Sajid Javid has pledged to increase the NLW towards a new target of two-thirds of median earnings by 2024, provided economic conditions allow. The Chancellor additionally committed to expand the living wage to more young people by bringing down the age threshold for the NLW to cover all workers over 21.

Employers with significant payroll costs, made up of workers being paid at the minimum wage rates, may need to factor these possible changes into their forecasts.

FINANCIAL CALENDAR

December 2019

30 Last day to submit 2018/19 tax return online to have unpaid tax of up to £17,000 collected through the 2020/21 PAYE code.
The amount of debt that can be coded out in a year ranges from £3,000 to £17,000 based on a graduated scale.

January 2020

14 Due date for CT61 return and CT payment for quarter to 31 December 2019.

31 Submit 2018/19 Self Assessment return online. Pay balance of 2018/19 Income Tax and CGT plus first payment on account for 2019/20.

February 2020

2 Submit employer forms P46 (car) for quarter to 5 January 2020.

March 2020

31 Last minute planning for 2019/20 tax year. Make sure to use any CGT and IHT annual allowances and exemptions.

April 2020

5 Last day of tax year (6 April 2020, first day of new tax year).

14 Due date for CT61 return and CT payment for quarter to 31 March 2020.

May 2020

3 Submit employer forms P46 (car) for quarter to 5 April 2020.

31 Last day to issue 2019/20 P60s to employees.

July 2020

5 Final date to agree 2019/20 PAYE Settlement Agreements (PSA).

6 Last date for returns of expenses and benefits (forms P11D, P9D and P11D(b)) for 2019/20 to reach HMRC. Relevant employees to receive copies of forms P11D and P9D.

6 Last date to submit annual returns for employee share schemes and employment-related securities for 2019/20 (forms 34, 35, 39, 40 and 42).

14 Due date for CT61 return and CT payment for quarter to 30 June 2020.

22 Class 1A NICs for 2019/20 due (19th if paid by cheque).

31 Due date for second payment on account of 2019/20 Income Tax and Class 4 NICs.

31 Last day to pay 2018/19 tax to avoid second automatic 5% surcharge (unless late payment agreed with HMRC).

August 2020

2 Submit employer forms P46 (car) for quarter to 5 July 2020

October 2020

5 Deadline to notify HMRC of chargeability to Income Tax or CGT for 2019/20.

14 Due date for CT61 return and CT payment for quarter to 30 September 2020.

31 Deadline to submit 2019/20 Self Assessment tax return if filed on paper.

November 2020

2 Submit employer forms P46 (car) for quarter to 5 October 2020.

Every month:

1 Annual Corporation Tax due for companies with a year ending nine months and a day earlier, e.g. tax due 1 January 2020 for year ending 31 March 2019.

14 Quarterly instalment of Corporation Tax due for large companies (depending on accounting year-end).

19 Pay PAYE/NIC and CIS deductions for period ending 5th of the month if not paying electronically. Submit CIS contractors' monthly return.

22 PAYE/NIC and CIS deductions paid electronically should have cleared into HMRC bank account.

30/31 Submit CT600 for a year ending 12 months earlier. Last day to amend CT600 for a year ending 24 months earlier.

If the due date for payment falls on a weekend or Bank Holiday, payment must be made by the previous working day. Electronic payments sent using the Faster Payments Service (FPS) are able to clear into HMRC's account on a non-banking day – a Saturday, Sunday and most Bank Holidays.

File accounts with Companies House for private companies with a year ending nine months earlier and for public companies with a year ending six months earlier.

In preparing and maintaining this newsletter, every effort has been made to ensure the content is up to date and accurate. However, law and regulations change continually and unintentional errors can occur and the information may be neither up to date nor accurate. The editor makes no representation or warranty (including liability towards third parties), express or implied, as to the accuracy, reliability or completeness of the information published in this newsletter.

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