2017-18

YEAR END TAX

**REVIEW**


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# Managing the monster

The tax system behaves like a hydra monster, no sooner has one head been chopped off than two more grow in its place.

From April 2018 the UK will have three versions of land transaction tax and three types of landfill tax (in Scotland, Wales and the rest of UK). There are also likely to be six income tax bands for Scottish taxpayers. These changes are the result of the devolution of tax powers to Scotland and Wales, but they will impact wider communities. Be thankful that the tax reforms for Northern Ireland have stalled for now.

The dream of tax digitalisation has been punctured by hard reality, so the Making Tax Digital (MTD) programme has been restricted to VAT-registered businesses for the first stage, and delayed by a year to April 2019. The Government fully intends to expand MTD to all businesses and landlords, but not until at least 2020.

In the meantime, certain taxes have effectively increased their scope by the freezing of allowances and thresholds. The nil rate band for Inheritance Tax (IHT) has been frozen until 2021, although this exempt amount can be increased when the deceased leaves the value of his or her home to a direct descendant.

The VAT registration threshold has been fixed at £85,000 until April 2020 and this will draw more businesses into the VAT net by the operation of inflation.

Individual landlords of residential properties are already suffering a 25% restriction in the amount of interest they can set against their rental income, and this will increase to 100% from 6 April 2020. Landlords who have not already done so should review the structure of their property businesses and financing of those businesses with some urgency.

The tax reliefs available for specific categories of expenditure have to be claimed within a tight window, such as for the costs of research and development, or for investing in the shares of certain small companies.

This newsletter explains these tax changes in more detail. If you are likely to be affected, you may need to review the form in which you receive income, and the structures which you use to hold assets.

We recommend you undertake an annual review of your financial affairs to check if you are paying more tax than you need to and whether the structures you set up in the past are still appropriate. Under self-assessment, your personal return for 2016/17 must be submitted, and the tax liability settled, by 31 January 2018; between then and the end of the tax year (5 April 2018) is a good time to assess whether you are as well defended against high tax charges as you can be.

Of course, the personal circumstances of each individual must be taken into account in deciding whether any particular plan is suitable or advantageous – but these suggestions may give you some ideas. We are happy to discuss them with you in more detail. •

## Tax-free rent

When you let rooms in your own home as residential accommodation you can receive the rent tax free if it falls within the limits for rent-a-room relief. This relief is currently capped at rents of £7,500 per year. Where more than one person receives the rent from the property, each person has a tax-free exemption for rent of £3,750.

The conditions for rent-a-room relief stipulate that you must occupy the property as your main home – this relief can't cover income from a holiday home or buy-to-let property. Also, the accommodation must be used for residential purposes, not as an office.

From 6 April 2017 there is another allowance of £1,000 which covers rental income (for any land or building) which doesn't qualify for rent-a-room relief.

This £1,000 property income allowance can apply to rent from letting an area as an office, store room, or even from parking rights on your drive. However, you can't use the £1,000 allowance against rent paid by your own company, a company you work for, or one which your spouse is associated with.

Any extra rental income which exceeds either of these reliefs is taxable, and must be declared on the your tax return, along with any related expenses. ●

**ACTION POINT!**
Can you claim rent-a-room relief or the property allowance?

## Innovate to accumulate

Companies which invent new production methods or products can claim enhanced tax relief for the research and development (R&D) costs. Small and medium sized companies can claim 230% of qualifying R&D costs, and a 14.5% payable tax credit if this extra deduction results in a loss!

This is a very attractive relief and it's really quite easy to claim. You can ask HMRC for an advance assurance that your company, and its R&D projects, will meet the requirements for R&D tax relief. We can help you do this.

The main benefit of advance assurance is that HMRC won't raise further questions about your initial R&D claim, and for R&D claims submitted for the next two accounting periods.

The advance assurance procedure can only be used by small companies which haven't claimed R&D tax relief before. 'Small' means an annual turnover of no more than £2 million, and fewer than 50 employees.

You need to apply for R&D tax relief within two years from the end of the accounting period in which the R&D costs were incurred. So, if your company has been innovative in the recent past, don't delay your application for R&D tax relief!

**ACTION POINT!**
Check what R&D expenses your company can claim an enhanced deduction for.

## Give and save

Giving to charity under Gift Aid can result in a win/win for both the donor and the charity.

If your total income is above the higher rate threshold (£45,000 for 2017/18 or £43,000 in Scotland), making a Gift Aid donation will reduce your tax bill for the year in which the donation is made. Alternatively, you can shift the tax benefit of some or all of that gift back one year, by telling HMRC on your tax return. This can be useful if your marginal tax rate was higher last year than in the current tax year.

The gift to be carried back must be made before you file your tax return for the earlier tax year. Say you make a Gift Aid donation of £2,000 on 21 December 2018. If you submit your 2017/18 tax return after that date (it's due by 31 January 2019) you can include a claim in that return to carry back up to £2,000 of the donation you made on 21 December 2018, which will reduce your 2017/18 tax liability.

Gift Aid can reduce your income used to calculate the clawback of child benefit (income over £50,000) and the reduction in personal allowance (income over £100,000). It can also increase your higher rate or additional rate threshold, which determine whether you receive a personal savings allowance of £1,000, £500, or nil.

To make a valid Gift Aid donation, you must declare that you will pay sufficient tax to cover 25% of the value of your gift in the year the gift is made. If you give £800 under Gift Aid, you must pay Income Tax and/or Capital Gains Tax of at least £200. ●

**ACTION POINT!**
Do you want to make charitable donations before you complete your tax return?

## Buyers beware

Buying property is about to get a little more complicated, as the taxes you pay on purchase will be different in Wales, Scotland, and the rest of the UK from 1 April 2018.

In Wales, Land Transaction Tax (LTT) will apply to residential property purchased for over £180,000, with a starting rate of 3.5% in the band to £250,000. This contrasts with the starting rate of Stamp Duty Land Tax (SDLT) in England and Northern Ireland of 2% for properties in the band £125,001 to £250,000. In Scotland the starting rate of Land and Buildings Transaction Tax (LBTT) is also 2% but that applies to properties valued at over £145,000, up to £250,000.

However, there is an exemption from SDLT on the first £300,000 of the property value for first-time buyers from 22 November 2017, where the total value of the property doesn't exceed £500,000. The Scottish Government will also apply a first-time buyer exemption from LBTT on the first £175,000, from a date to be announced in 2018/19.

The Welsh Government has decided not to cut LTT for first-time buyers, as the average price of a home purchased by such individuals in Wales is £135,000, below the starting point for LTT.

All three countries impose a 3% supplementary charge on the value of residential property purchased by companies or as a second home, where the value of the property exceeds £40,000. However, the detailed rules for the supplementary charge differ in each country. ●

**ACTION POINT!**
Check the taxes to be payable on purchase before exchanging contracts to buy property.

## Interesting savings

All interest paid on accounts other than ISAs is taxable, but banks and building societies no longer have to deduct tax from the interest they pay to you. However, for most taxpayers the rate of tax payable on the interest is 0%, so no tax is in fact payable.

This zero tax rate applies where your savings income falls within your Savings Rate Band (SRB), which is worth up to £5,000, or within your Personal Savings Allowance (PSA), which is worth £1,000 for basic rate taxpayers or £500 for higher rate taxpayers. Any savings income which falls outside the SRB or PSA is taxed at your marginal income tax rate (20%, 40% or 45%).

The available SRB depends on how much other taxable non-savings income you receive, such as salary, pensions, trading profits or rent. If you can control the type of income you receive you can reduce the total tax you pay for the year. ●

**ACTION POINT!**
Review your mix of income to maximise your savings allowance for 2017/18.

**Example**
Harry runs his own company and receives interest from external savings. After deducting his personal allowance from his salary he has £5,000 of taxable income that entirely eats up his SRB. He is a basic rate taxpayer, so has a PSA of £1,000.

| 2017/2018 | Non savings | Savings | Tax payable |
|---|---|---|---|
| Salary/interest | £16,500 | £1,500 | |
| Personal allowance | (11,500) | | |
| Taxed @ 20% | 5,000 | | 1,000 |
| Savings allowance | | (1,000) | |
| Taxed @ 20% | | 500 | 100 |
| Total tax payable | | | 1,100 |

Harry lends part of his savings to his company, which uses the money for development, and pays him interest at a commercial rate under a written agreement. He also reduces his salary to the NIC threshold.

| 2017/2018 | Non savings | Savings | Tax payable |
|---|---|---|---|
| Salary | £8,164 | | |
| Interest | | 9,836 | |
| Personal allowance | (8,164) | (3,336) | |
| Taxable | nil | 6,500 | |
| SRB | | (5,000) | |
| PSA | | (1,000) | |
| Taxable @20% | | 500 | 100 |

Harry's tax bill has reduced from £1,100 to £100 on the same level of income. The company must deduct tax at 20% from the interest it pays, but this can largely be reclaimed by Harry.

## Max out your state pension

If you are yet to reach State Pension Age (SPA), you will need to have accrued 35 complete years of National Insurance Contributions (NIC), to receive the full state pension. To receive any UK state retirement pension, you need at least ten complete NIC years.

You can check how much state pension you are due to receive through your personal tax account on gov.uk. We can help you with this.

You may not receive the full pension if you were contracted out of the second state pension or State Earnings Related Pension Scheme (SERPS) for part of your working life.

It is possible to plug gaps in your NIC record by paying voluntary class 2 or class 3 NIC. This payment generally needs to be made within six years of the gap year, but there are a number of exceptions which extend that period.

You may also qualify for NI credits for some years if you were claiming state benefits, child benefit or were a foster carer. The NI credits were not always applied automatically, so it's worth checking your own NIC record.

If you have already paid enough NIC to get the full state pension, you may consider taking further rewards from your company in other forms, such as dividends or private pension contributions. ●

**ACTION POINT!**
Consider topping up your NIC record by claiming NIC credits or paying more contributions.


## Budget for tax

January is the cruellest month for the self-employed. No one has the money to pay you, and HMRC wants a large tax payment.

Tax and NIC due on your self-employed profits for 2017/18 is paid in two Payments on Account (POA), on 31 January 2018 and 31 July 2018. These amounts are based on the tax liability reported in your 2016/17 self-assessment tax return.

If your final tax liability for 2016/17 is more than the total of POA paid in January and July 2017, you pay the rest on 31 January 2018, plus any Capital Gains Tax you owe for the year. Thus, the amount due on 31 January 2018 is half your normal tax bill paid as a POA for 2017/18, plus your CGT, plus any balance due for 2016/17 – ouch!

If your tax liability for 2017/18 drops compared to 2016/17, you'll get some of your tax back for 2017/18 when your 2017/18 return is submitted (due by 31 January 2019) – but you'll be out of pocket in the meantime.

Instead of waiting until 2019, you can ask to reduce the next two POAs if you believe your total tax bill for 2017/18 will be less than for 2016/17. We can help you calculate whether your POA will be too large.

You can opt to pay regular monthly or weekly amounts towards your tax bill by setting up a Budget payment plan with HMRC. You decide how much to pay as a regular direct debit. If the total paid is not sufficient to cover the tax due by 31 January or 31 July, you need to make up the shortfall, but this may be far less painful than finding a large sum in one go. ●

**ACTION POINT!**
Do you need to discuss reducing your payments on account for 2017/18?

## Disincentive for diesels

Diesel vehicles are regarded as being more fuel-efficient than petrol models, but they are taxed at higher rates as their NOx emissions are more harmful.

If you are considering a new company or privately owned car, take account of the following tax penalties for diesels.

The rate of vehicle excise duty (VED) for cars registered on and after 1 April 2018 will be higher in every band for diesel cars, but only for the first year of registration.

From 6 April 2018 the percentage of list price (used to calculate the car benefit) carries a 4% supplement for diesel cars, increased from 3%.

For most petrol company cars, the percentage of list price will rise by two percentage points in 2018/19, but it will rise by three points for diesels, and four points for electric cars. From 2018/19 to 2019/20 the percentage rises by three points for all cars, up to a maximum of 37% of list price.

Say your employer provides you with a diesel-powered car costing £30,000 ($CO_2$:110g/km). The taxable car benefit is £7,200 (24% x £30,000) in 2017/18, but in 2020/21 the taxable benefit for the same car will be £9,300 (31% x £30,000).

The taxable benefit for pure electric cars will jump from 9% of list price in 2017/18 to 16% in 2019/20; it is then due to fall back to 2% in 2020/21. •

**ACTION POINT!**
Budget for the tax due on your company car in future years.

## Payroll and pensions

Employers are required to automatically enrol their employees in a workplace pension from the staging date set by the pensions regulator. The last few businesses will reach their staging dates by 1 February 2018. If you have not auto-enrolled your employees already, you need to comply very soon.

Most employees, with very limited exceptions, must be paid the National Minimum Wage (NMW). These hourly rates vary according to the age of the worker, so it's crucial to keep a sharp eye on the birthdays of your younger workers to ensure they are paid the correct NMW rate.

All the NMW rates will increase for the first pay period that begins on or after 1 April 2018, and it is important to get these pay calculations exactly right. If you underpay by £100 or more, HMRC can include your details on a list of employers which is published quarterly.

The penalty for failing to pay the NMW can be up to £20,000 per employee. HMRC will proactively review employers who are likely candidates for ignoring the minimum wage rates. •

**ACTION POINT!**
Are you prepared for the payroll and pension changes this year?

## A family view

In the UK, everyone is taxed as an individual, but social security benefits, including Tax Credits and Universal Credit, are awarded on the basis of the family's total income. Child benefit is also withdrawn based on the income of the highest earner of a couple, irrespective of who claimed it.

Families with an unequal distribution of income will often pay more tax than couples who earn enough each to cover their basic personal allowance (£11,500 for 2017/18) and the basic rate band. The thresholds for restricting child benefit (£50,000), personal allowance (£100,000) and pension annual allowance (£150,000) all operate for the individual, so disadvantage families where the income is concentrated in one person's hands.

Consider the Browns – they have two children and claim child benefit. In 2017/18 George Brown earns £86,000 and pays higher rate tax, but Sally Brown has no income. Because George's income is over £60,000, the family's child benefit is clawed back from him as a tax charge.

In contrast, John and Joy Green each earn £43,000, so they keep their child benefit, and pay less Income Tax as their highest marginal tax rate is 20%. Both Greens make use of their full personal allowance and basic rate bands.

Roger and Rose are in a worse tax position. Roger's total income is £160,000 and his employer contributes £40,000 into his pension scheme. Roger and Rose have no effective personal allowances as Rose has no income to set her allowance against, and Roger's personal allowance is entirely withdrawn as his income exceeds £123,000.

Roger is treated as having income of £200,000 (£160,000 + 40,000) for pension relief purposes. His pension annual allowance is therefore reduced to £15,000, so he suffers an annual allowance charge at 45% on £25,000 of pension contributions.

These examples show that it makes sense to transfer some income from the higher earner to the lower earner in order to take advantage of the personal allowance, lower tax bands, and to avoid the clawback of allowances. This is not always easy to do, but the following methods are possible:

- an outright gift of savings and investments which produce taxable income
- putting savings and investments into joint names and sharing the income
- employing the spouse or partner in a business
- taking the spouse or partner into partnership

HMRC can challenge some of these if they think the transfer is not genuine – it's important to take advice to be sure that the plan will work. •

**ACTION POINT!**
Can you transfer income to reduce your family's tax and save your allowances?

## ISA nice idea

You can save for retirement in a number of ways. The traditional route is via a pension scheme, but you could also use an ISA.

Savers aged under 40 can open a lifetime ISA, and contribute up to £4,000 per year which attracts a 25% bonus from the Government. This bonus is withdrawn if the savings are accessed for anything other than a deposit for the saver's first home, or from age 60.

The lifetime ISA savings are counted as part of the annual ISA allowance of £20,000 per tax year. This allowance can't be carried over to a future tax year, so it's a case of use it or lose it.

ISA savings are not taxed when they are withdrawn, but they don't attract tax relief on the way into the account.

Pension scheme savings are taxed when they are withdrawn, with an exception for the first 25% cash lump sum taken. However, contributions into a registered pension fund will attract tax relief at your highest tax rate, subject to the cap imposed by your annual allowance.

This annual allowance is nominally set at £40,000, which covers contributions made by you and by your employer on your behalf. Any annual allowance not used can be carried forward for up to three years.

Where your total income, including pension contributions made by your employer, tops £150,000, your annual allowance is usually reduced by £1 for every £2 over that threshold, down to a minimum of £10,000.

Your annual allowance is also reduced to £4,000 exactly (not tapered down), if you have accessed your taxable pension savings built up in a money purchase (defined contribution) pension scheme. This is to prevent you from drawing funds from your pension scheme and replacing the money into the same or another pension scheme with additional tax relief.

This restricted £4,000 money purchase annual allowance can't be carried forward to future tax years. •

**ACTION POINT!**
Review your pension saving plans before 6 April 2018.

## Tartan Taxes

The Scottish Government has proposed that Scottish income tax should be imposed in six different tax bands at rates of 0%, 19%, 20%, 21%, 41%, and 46%. These rates and the associated tax bands will only apply to income which is not dividend or savings income, so savings and dividends will be taxed at rates and bands applicable in the rest of the UK.

The new tax bands are expected to apply from 6 April 2018, but this will be subject to the law being passed by the Scottish Government in February 2018.

The Scottish tax bands will not be aligned with the National Insurance Contribution (NIC) thresholds. This will lead to some very high marginal rates for Scottish taxpayers (individuals whose main home is in Scotland), as shown in the table.

The NIC rates will be different for self-employed individuals, and will not apply for those over state pension age. The high marginal rate between £100,001 and £123,700 arises because the personal allowance is withdrawn by £1 for every £2 of additional income in that band.

If you plan to take a taxable income from your pensions, or a bonus in 2018/19, be very careful not to push your income into a band where it is taxed at 53% or 63.5%. ●

**ACTION POINT!**
Check what tax rate will apply on any extra income you plan to take in 2018/19.

**Employee in Scotland in 2018/19**

| Income in band | Scottish tax | NIC | Total rate on band |
|---|---|---|---|
| £ | % | % | % |
| 0 – 8,424 | 0 | 0 | 0 |
| 8,425 – 11,850 | 0 | 12 | 12 |
| 11,851 – 13,850 | 19 | 12 | 31 |
| 13,851 – 24,000 | 20 | 12 | 32 |
| 24,001 – 44,273 | 21 | 12 | 33 |
| 44,274 – 46,350 | 41 | 12 | 53 |
| 46,351 – 100,000 | 41 | 2 | 43 |
| 100,001 – 123,700 | 61.5 | 2 | 63.5 |
| 123,701 – 150,000 | 41 | 2 | 43 |
| Over 150,000 | 46 | 2 | 48 |

## Tipping points

When your total income reaches certain thresholds, it tips any extra income into a tax band where a higher rate of tax is charged. This can also mean you lose part or all of your savings allowance, child benefit, personal allowance, or pension annual allowance.

The thresholds quoted below don't apply to taxpayers who live in Scotland, as the income tax rates in Scotland are different to those that apply in the rest of the UK (see above). However, the principle is the same. You may be able to save tax by moving income from 2017/18 to 2018/19, or by making certain payments in 2017/18 rather than in 2018/19.

Say you are a 20% taxpayer in 2017/18, but expect that a bonus due in March 2018 will tip you into the 40% band (over £45,000). If you ask your employer to delay paying the bonus until after 5 April 2018, you'll pay the tax on that income later. You will also retain all your £1,000 savings allowance, and may still stay out of the 40% band for 2018/19, as the threshold for that year will be higher.

The main thresholds are (2017/18 figure first, then 2018/19):

- basic personal allowance: £11,500 (£11,850) – basic rate tax (20%) starts
- higher rate threshold: £45,000 (£46,350) – 20% rate increases to 40% and savings allowance reduces from £1,000 to £500.
- married couples allowance: transfer of 10% of personal allowance is possible where the higher earner has income of no more than £45,000, (£46,350)
- child benefit clawback: income between £50,000 and £60,000 (no change for 2018/19)
- withdrawal of personal allowance: income between £100,000 and £123,000 (£123,700 in 2018/19)
- additional rate: income above £150,000 – 40% rate increases to 45% (no change for 2018/19), savings allowance removed, and pension annual allowance reduced

Gift Aid donations and pension contributions can increase the value of most of the above thresholds. You can elect for donations to be treated as being paid in the preceding year.

Income that can easily be moved from year to year includes:

- bonus from your own company
- dividends from your company
- encashments of life assurance bonds
- withdrawal of taxable income from pension schemes in 'drawdown' ●

**ACTION POINT!**
Consider moving income or deductions around 5 April 2018.

## Planning to sell

For many people the New Year prompts a review of their life goals. If you are now wondering whether, or when, you should sell your business, a sensible first step is to make a provisional plan for its disposal.

The sale of a successful trading company will generate a capital gain, which would normally be taxed at 20% after deduction of the annual exemption (currently £11,300, £11,700 for 2018/19).

Entrepreneurs' Relief can reduce the tax rate to 10% on a gain of up to £10m. But both of these conditions must be met for at least 12 months ending with the date of the sale:

- you held at least 5% of the ordinary shares and voting rights of the company, or you acquired the shares under the EIM scheme;
- you were an employee, director or company secretary of that company or of another company in the same group.

If you step back gradually from your company, retiring from your role as director before you sell your shares, you may miss out on this valuable tax relief. A plan to disincorporate and carry on the business on a smaller scale as an individual or partnership can be caught by anti-avoidance legislation.

If you would like to pass on your company to your employees but they can't afford to buy it, an employee ownership trust can be used. The trust acquires enough shares to control the company, and holds those shares on behalf of the employees. You escape CGT on the shares you pass to the trust, as long as the controlling shares are transferred within one tax year. ●

**ACTION POINT!**
Allow at least 12 months to prepare to sell your company.

## Planning gains

Most people have an annual exemption for Capital Gains Tax (CGT) of £11,300 for 2017/18. This is wasted if you don't make capital gains in the tax year. You can't carry forward any unused exemption to a different tax year, or transfer the exemption to another person.

If you are planning to dispose of assets which will create capital gains, you can save tax if the disposals are spread over several tax years. This is easy to do if your assets can be split into separate chunks, like shares. Each sale can then be calculated to produce a gain of less than £11,300.

If the asset must be sold in one go, you could reinvest part or all of the gain in EIS shares (if you are prepared to take a risk). This will defer the gain until the EIS shares are sold. You can sell sufficient EIS shares in later years, so the gain is covered by your annual exemptions.

When you give a valuable asset to a relative, the disposal is treated like an open market sale, and the deemed gain is taxable. However, gifts to your spouse or civil partner don't create immediate taxable gains, as the recipient takes over the transferor's CGT cost. You can use this transfer to share the ownership of a property, and hence the gain, between two people and thus use two annual exemptions in one tax year.

Legal advice should always be taken when giving away land or buildings, or a share in such property. Stamp duty land tax, (or similar taxes in Scotland or Wales) may be payable if the property is mortgaged. •

**ACTION POINT!**
Are you taking full advantage of the CGT exemption?

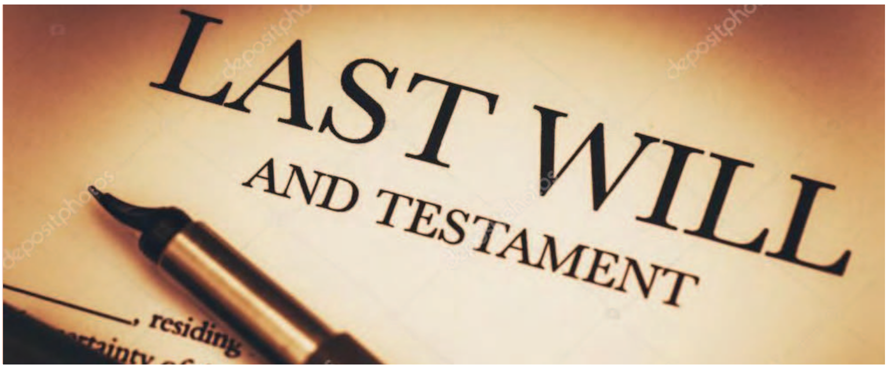
## Money for miles

If you use your own car for a business journey, perhaps to travel to a customer, you can claim mileage expenses for that journey. Many employers pay the full tax-free amount of 45p per mile, which drops to 25p for miles in excess of 10,000 in one tax year.

If your employer doesn't pay the full rate, you can claim tax relief on the shortfall, either on your tax return or on form P87. You need to submit your claim within four years of the end of the tax year in which you made the business journey. Claims for 2013/14 must reach the tax office by 5 April 2018.

Once HMRC has accepted your mileage claim for one tax year, subsequent claims for up to £1,000 per year can be made by phoning the tax office on 0300 200 3300. •

**ACTION POINT!**
Are you due a tax refund for business journeys?




## Your clear intention

When you die, your executors or relatives need to sort out your affairs. This stressful task can be made easier if you leave a clear and up-to-date Will which has been drafted with tax in mind.

They also need to pay Inheritance Tax (IHT) if the net value of your assets, including your home and any insurance policies that pay out on your death, exceeds £325,000. Any wealth above this threshold bears IHT at 40%, or at 36% if at least 10% of your net estate has been left to charity.

The IHT tax threshold is expanded by at least £100,000, if you leave the value of your home to one or more of your direct descendants. If that is your wish, your Will must be clear about who receives the value of your home. This home-related tax exemption will increase to £125,000 for deaths on and after 6 April 2018.

There are other ways to reduce the IHT payable on death, such as:

- use your annual IHT allowance of £3,000 to make gifts from your capital or savings; if you didn't use the allowance in 2016/17 you can give away up to £6,000 in 2017/18
- make other gifts to individuals as early as possible, as they will fall out of the IHT calculation if you survive seven years after the date of the gift (but be careful not to trigger CGT charges on the gifts)
- make regular gifts out of your surplus income rather than out of accumulated income or capital – those lifetime gifts may escape IHT
- ensure that proceeds from your life assurance policies flow directly to a beneficiary – if the money lands in your estate on your death, this could trigger an IHT charge
- inform your pension fund managers of who you wish to receive any undrawn funds by way of a wishes letter – such funds can be free of IHT if you die aged under 75 •

**ACTION POINT!**
Is your Will up to date and do your executors know where to find it?

## Investing for the future

The Government encourages individuals to make high-risk investments in small trading companies or charities by providing income tax relief for investors in the following schemes (limits for 2017/18):

- Social Investment Tax Relief (SITR): 30% relief on up to £1 million
- Enterprise Investment Scheme (EIS): 30% relief on up to £1 million
- Seed Enterprise Investment Scheme (SEIS): 50% relief on up to £100,000
- Venture Capital Trust (VCT): 30% relief on up to £200,000

From 6 April 2018 you can invest a further £1 million in knowledge-intensive companies under EIS, taking the maximum annual investment to £2 million. The amounts invested under EIS, SEIS or SITR can be treated as made in the previous tax year if the investment limit for the earlier year has not been reached.

When you dispose of shares acquired under these schemes, any capital gains you realise will be free of capital gains tax (CGT), if you've held the investment for at least three years (except VCTs, where there is no minimum period).

Shares acquired on or after 17 March 2016 that qualify for Investors' Relief are also free of CGT if they are held for at least three years and disposed of after 5 April 2019.

Where you have already made capital gains you can defer tax on those gains by reinvesting under the EIS or SITR within three years of making the gain. Reinvesting the gain in SEIS shares will halve the tax on that gain if the investment limits and conditions are not breached.

These tax reliefs won't turn a bad investment into a good one, but they will make a good one better and will reduce the risk involved in investing.

You should take advice from a qualified financial adviser on where to put your money, as well as understanding how it will reduce your tax bill. If you are thinking of investing in one of these schemes, you may want to do so before 5 April 2018 to maximise the benefit. •

**ACTION POINT!**
Are tax-favoured investments worth discussing with your advisers?

## Cash and finance costs

Individual landlords of residential properties are subject to two new tax rules from 6 April 2017: a restriction on deducting interest costs, and the 'cash basis' for accounts where the property business has a turnover of no more than £150,000.

The cash basis has the effect of taxing income in the year it is received and expenses in the year they are paid. It may benefit you if your tenants tend to pay late. You can opt out of the cash basis if you wish.

In 2017/18 individual landlords are permitted to deduct 75% of their interest and finance charges for tax purposes, and from 6 April 2020 all such finance costs will be disallowed. In place of the blocked later year. The figures will be different for Scottish taxpayers.

If your residential property business is supported by significant borrowings you need to urgently consider whether to restructure that business to avoid significantly higher tax bills. Your choices may include:

- selling one or more residential properties to reduce borrowings
- selling all residential property and reinvest in commercial buildings (the interest restrictions don't apply)
- let the homes as Furnished Holiday Lettings (which are not affected)
- transferring the properties into a company

| | 2017/18 | 2020/21 |
|---|---|---|
| Salary | £35,000 | £35,000 |
| Rents less running costs | 34,000 | 34,000 |
| Interest deduction | (24,000) | nil |
| Total net income | 45,000 | 69,000 |
| Personal allowance | (11,500) | (12,500) |
| Taxable income | 33,500 | 56,500 |
| Tax charged at 20% | 6,700 | 7,500 |
| Tax charged at 40% | – | 7,600 |
| Tax credit on interest at 20% | – | (6,400) |
| Total tax payable | 6,700 | 8,700 |

interest the landlord receives a 20% tax credit to set against his income tax bill. This adjustment to interest deductions doesn't apply to corporate landlords.

Where the property business is supported by borrowing, the increased taxable income can push the landlord's total income into higher tax bands, leading to the loss of personal allowances or the claw-back of child benefit.

The example compares an English landlord's tax position in 2017/18 (when he deducts 75% of the £32,000 interest paid) with his position in 2020/21 when all interest is blocked. The amounts of personal allowance (£12,500) and basic rate band (£37,500) are estimated for the

The last option is not easy as the lender will have to agree to transfer your property loans to the company. The transfer of properties is likely to incur land tax charges for the company, and may well generate a taxable capital gain in your hands.

We can help you model the financial future for your residential property lettings. •

**ACTION POINT!**
Review your borrowings to ensure a sustainable future for your lettings business.

## Elect in good time

Events don't always turn out as expected. For example, you may need to wait for a later profit or loss to arise before you can judge whether it's right to elect to change the tax treatment of an earlier transaction.

This is why the law allows you extra time, after you have submitted your tax return, to submit a tax election or claim. The elections you may need to make by 31 January 2019 for the 2016/17 tax year include:

- to set trading losses against your other income
- to average the profits made from farming, or as an author or artist
- to treat a property as continuing to qualify as commercial Furnished Holiday Letting if it qualified as such in 2014/15, but otherwise would not

You need to wait for a certificate to arrive before making a claim for your investment under the venture capital schemes – EIS, SEIS or SITR – so the claim period for those schemes is five years after the tax return submission date.

Corporate tax claims generally need to be made within two years of the end of the accounting period in which the transaction occurred.

We can help you check what claims or elections you need to make. •

**ACTION POINT!**
Have you made all the necessary tax claims?

## VAT goes digital

The Government's aspiration for the UK tax system is that all taxpayers should submit their accounts information to HMRC directly from accounting software. The first step towards this brave new digital world will be taken by VAT registered businesses.

From 1 April 2019, VAT registered businesses will have to submit their VAT returns via accounting software, not as now, by inputting figures on to a form on the HMRC webpage. There will be exceptions for business owners who can't use computers due to age, disability or religious reasons. Businesses that are VAT registered on a voluntary basis will be able to choose whether to use accounting software to submit their returns or not.

The figures submitted by the software will be the same totals as are currently reported on quarterly VAT returns, but the business will have the option to submit more detailed supplementary information. We will be able to submit your VAT figures on your behalf as now, but the law will require you to keep your accounting information in a digital form.

The best way to prepare for this digital revolution is to get into the habit of recording your income and expenses using accounting software. We can help you choose and implement the right software for your business. •

**ACTION POINT!**
Are you geared up for the digital tax revolution?

## Slowness fines

If you are slow in submitting your tax returns, you will get a late filing penalty. Say you miss the deadline for filing your self-assessment tax return (31 January for online filing) you will be charged a £100 penalty. Where the tax return is for a partnership, each partner must pay £100.

If the return is filed more than three months late an additional £10 per day is charged, and after six months another penalty is imposed as the higher of £300 or 5% of the tax due. Those penalties will stand even if the tax return shows no tax is payable.

A similar £100 penalty applies for a late corporation tax return, which is due a year after the end of the accounting period. If you make a habit of submitting late company returns, the penalties rise to £500 each time.

The penalties for paying VAT late can amount to up to 15% of the delayed payment, even if it arrived only one day late.

Pay attention to any electronic warning notices from HMRC about penalties due for late filing or late payment.

If you have a 'reasonable excuse' you may escape the penalty, but it has got to be a pretty good one. Fire, flood, plague and death of a close relative may be accepted, lack of funds will not. •

**ACTION POINT!**
We can help you file on time, if you respond to us promptly.

## The ATED trap

The Annual Tax on Enveloped Dwellings (ATED) applies when a company (and certain other bodies) owns a UK residential property worth over £500,000. The charge applies for the year from 1 April, but the ATED return, and any payment due, must reach HMRC by 30 April within that period (i.e., by 30 April 2018 for 2018/19).

This annual charge starts at £3,600, and increases for valuation bands up to £226,950 for 2018/19. The charge is based on the property's value as at 1 April 2017, or the purchase date if later.

The owner can claim 100% relief if the property is let commercially, is under development, or if certain other conditions apply, but the relief must be claimed on an ATED relief form by 30 April for each year.

There are steep penalties for late submission of ATED returns, which are payable even if there is no ATED charge to pay. HMRC can check whether an ATED return is due by accessing the Land Registry database to see who owns which properties. ●

**ACTION POINT!**
Remember to claim ATED relief when developing or letting high value homes owned by a company.

## Stick or split on VAT

The VAT registration threshold will be held at £85,000 until at least April 2020. This may bring more businesses into the VAT fold if they increase their prices with the rate of inflation.

Say your annual sales are £83,000. If you increase your prices by 3% in January 2018, by 2019 your turnover will be £85,490, and you will have to register for VAT within 30 days.

You could restrict your price increase so your turnover remains under £85,000, but if your purchase costs are increasing this will cut your profit margins. Alternatively, you could restrict your sales by taking longer holidays, if you can afford it.

Another idea is to hive off a part of your business into a separate legal entity, so each new business has turnover under £85,000. However, this must be done with great care, as HMRC can challenge any artificial split.

The two businesses should have a bank account each, keep separate business records, and file separate tax returns. Ideally the businesses should provide different services or goods to separate groups of customers. There must be separate contracts with any common suppliers. ●

**ACTION POINT!**
Will your business be able to stay under the VAT threshold from April 2018?

## Timing is everything

The end of the accounting period for your business is a key point for tax planning. You can save or delay tax by moving income and expenditure between accounting periods.

For instance, advancing the acquisition of assets to just within your current accounting period will mean the capital allowances associated with those assets can be claimed earlier.

All of the cost of qualifying assets which fall within your Annual Investment Allowance (AIA) is relieved as a capital allowance in the year of purchase. The AIA is worth up to £200,000, but it can't be claimed for the last period the business trades, or by partnerships where a member is a company.

Cars don't qualify for the AIA, but new cars with $CO_2$ emissions under 76g/km qualify for 100% allowances until 31 March 2018. Thereafter, new cars purchased before April 2021 will qualify for 100% allowances where their emissions are no more than 50g/km. Charging points for electric cars also qualify for 100% allowances until until 31 March 2019.

If you have acquired a commercial property within the last two years, you should check whether the value of the fixtures within that building have been formally agreed with the building's previous owner. Without this formal agreement you could lose the right to claim capital allowances on those fixtures.

If your current year profits are looking very healthy, you may want to advance the payment of repairs, training costs, bonuses or pensions contributions.

An accrued salary payment, such as a bonus voted before the year-end, is deductible for the period if it is actually paid within nine months after that year-end. However, a pension contribution must be paid within a company's accounting period to be deductible for that period. ●

**ACTION POINT!**
Review spending plans and likely profit levels before your year-end.

## VAT cliff edge

The VAT registration threshold can be a cliff edge for many businesses, as once the business turnover exceeds that threshold it must charge VAT on all eligible sales. The registration threshold has been fixed at £85,000 from 1 April 2018 to at least 31 March 2020.

For your UK sales, you must check the cumulative total of your VATable sales (including zero-rated items) for every 12-month period, and register for VAT within 30 days once this total exceeds £85,000.

Do this calculation every month, as if you tally-up your sales just once a year for your accounts, you may miss this 30-day deadline. If your sales suddenly take off, you may be too busy to remember to register for VAT within 30 days. If you register later than the law demands, you can suffer a penalty.

For this reason, you may wish to register for VAT earlier than needed. Early registration allows you to claim back VAT on your start-up expenses. You can reclaim VAT on services used within the six months before your VAT registration date, and on goods acquired within four years before that date (if they are still held at the date of registration). The VAT paid on an expensive shop refit could be lost if you delay VAT registration too long.

However, it's a balancing act - if you register earlier than required, you must account for VAT on sales made after your registration date, which could have been VAT-free.

You can't change the VAT registration date requested once you've applied to register. It's very important to plan ahead for your VAT registration, to ensure the registration date falls at the optimum time for your business.

Businesses which sell digital services (such as eBooks or software) to non-business customers in other EU countries are strictly required to register for VAT in those other EU countries. To avoid multiplying the VAT administration up to 27 times, these digital sales are accounted for through VAT MOSS (Mini One Stop Shop) on the gov.uk website. We can help you with this. ●

**ACTION POINT!**
Check your total sales on a 12-month rolling basis.