RRL Big picture accountancy in Cornwall

New (Tax) Year's Eve – Time for reflection and new resolutions!

Tax year-end planning checklist

February 2019

It's that time of year again – the time to think about tax year-end planning. This checklist seeks to represent an overview of points you may wish to bear in mind with only just over a month remaining of the tax year. You can plan ahead and use our annual year-end tax checklist for the 2018/19 tax year and beyond!

Income Tax

Income splitting – Married couples (or civil partners) should review their level of taxable income received in the year to make use of tax savings by structuring their affairs to ensure that both spouses use their personal allowances and basic rate tax bands (where applicable) –being £12,500 and £50,000 respectively from 6 April 2019. Intra-spouse transfers of income producing assets should be considered, and come with the bonus of any transfer being exempt from capital gains tax also.

Watch the stealthy 60% band – If you anticipate your taxable income falling within the £100,000 - £123,700 (£125,000 from 6 April 2019) band, you will pay the maximum effective rate of income tax of 60%. Hence, it is best to avoid where possible. This can be done by making pension or qualifying gift aid contributions.

If you (or your partner) claim Child Benefit, the amount is restricted for those with taxable income between £50,000 and £60,000. Income in excess of £60,000 reduces the entitlement for Child Benefit to nil. This restriction applies if either partner falls in the bracket, therefore one partner earning £100,000 and the other £nil will have to repay all child benefit received whereas both partners earning £50,000 will not have to repay anything.

Dividend allowance – Have you and your family each utilised your £2,000 dividend allowance? The allowance is available to anyone that has dividend income. Dividends within your allowance are free of income tax but will still count towards your basic or higher rate bands, and may, therefore, affect the rate of tax that you pay on dividends you receive in excess of the £2,000 allowance. If a company has sufficient un-distributable reserves, it will be sensible to pay an extra dividend before 5 April 2019.

UK tax residence – UK tax resident individuals are required to pay UK income and capital gains tax on their worldwide income and gains. For those wishing to be treated as non-UK tax resident, it is vitally important to keep travel diaries and review the number of midnights of presence in the UK, ensuring to stay within the limits allowed by the Statutory Residence Test. For those non-UK tax residents owning UK non-residential land and property, they should consider the impact of the new capital gains tax charge that will be applied to gains realised on the disposals of such property from 6 April 2019.

Pensions – Review whether you have utilised your annual allowance in the year and whether you (or your limited company business) should seek to make use of any unused annual allowances from the previous three years. Pension contributions made individually increase the rate at which you pay higher/additional rate tax, whereas contributions made by a company are deductible for corporation tax purposes. To ensure that the option to use unused annual allowances in future years, it is prudent to become a member of a registered scheme if you are not a member of such a scheme already.

You can also contribute up to £2,880 net (£3,600 gross) per year into a pension on behalf of your children or grandchildren. The funds will be protected from tax charges but cannot be drawn on until the child/grandchild is aged at least 55. Flexible pension drawdown changes highlight the need for expert planning. The drawdown restricts the future ability to invest more into a pension scheme. The Money Purchase Annual Allowance limit reduced from £10,000 to £4,000 from April 2017. The 25% tax free amount doesn't have to be taken at once on retirement. Smaller amounts are possible, each with 25% tax free.

Use of a company – If you are a higher or additional rate taxpayer, structuring your business or investments through a limited company has the potential to cut your tax bills significantly. With corporation tax rates currently at 19%, and falling to 17% by April 2020, the potential advantages of holding income-producing assets in a limited company, rather than as an individual, are greater than ever. Structuring matters as a company can also have other benefits such as making it easier to make gifts for the purposes of lifetime inheritance tax planning.

Individual Savings Allowance (ISA) – Have you taken advantage of your ISA investment limit? You can currently invest up to £20,000. The income and capital growth on savings in an ISA is tax free. Unlike pension contributions, it is not possible to carry back ISA contributions, but there is still time until 6 April 2019 for an ISA subscription for the year 2018/19.

Life assurance bonds – Are you looking to cash in your life assurance bond? We urge you to consider the level of your other taxable income for the current tax year. The proceeds obtained from your life assurance bond will be treated as additional income, and the gains may push your income over the higher or additional rate tax threshold in the year they mature. All gains are taxed as income. Additional tax must be paid on the entire gain, however, keep in mind that withdrawals of up to 5% a year are tax free. If such bonds are held in a trust, we would strongly suggest speaking to a tax professional first before the bond is surrendered/matures as there are tax traps to navigate.

Buy-to-let properties – Given the tax changes regarding higher-rate tax relief on finance costs introduced from April 2017, it may be worth reviewing again the impact of these new rules. The restriction will increase to 75% (i.e. higher-rate tax relief only being available on 25% of finance costs) on 6 April 2019, before increasing to 100% the following year on 6 April 2020.

Consider either purchasing your next buy-to-let property in a limited company (whereby the new rules do not apply), or in the joint names of yourself and your spouse/civil partner as tenants in common. The rental income can then be divided between you according to the proportion of the property you each own, e.g. 10%:90%, giving the lower earning partner a more substantial interest, so that the income may be taxed at the lower income tax rates. Other possibilities would be: paying off the debt and incorporation (for the later consider tax planning with CGT and SDLT consequences)

Rent a room relief – Since April 2017, the first £7,500 of rental income you receive each year is free of tax. The government has recently reviewed the relief, and while restrictions planned to take effect from 6 April 2019 were dropped, the relief may not be here for long in its current form!

Capital Allowances – Consider capital allowances when purchasing a furnished holiday let or commercial property. This is an often overlooked aspect when investing in new ventures and can result in the loss of a large amount of tax relief. The Annual Investment Allowance has been increased from £200,000 to £1million (after 1 January 2019), but the WDA has been reduced from 8% to 6% from 6 April 2019. This means careful planning may be required for the capital allowances to be maximised.

Structures and Buildings Allowance (SBA) – If you are planning the build of commercial property or the improvement or conversion of existing structures and buildings, including converting existing commercial premises to qualifying use, an annual straight line deduction of 2% of the qualifying costs is available from 29 October 2018.

Business Premises Renovation Allowance (BPRA) – This was a relief for 100% of costs relating to conversions or renovations of unused property to bring it into use as a business premises. The BPRA was abolished from 1 April 2017. It is still possible to make claims by amending open periods before 31 March 2019.

Research & Development (R&D) tax relief – Limited companies should regularly assess, and speak to an experienced tax professional, as to whether they are incurring costs on R&D. It is very likely that most businesses are carrying out some form of R&D. It is something that is very misunderstood, and consequently drastically under claimed.

Value Added Tax (VAT) – If your business has a turnover of less than £150,000 per year you can use the Flat Rate scheme for small businesses. The Flat Rate Scheme uses a simplified single step process, whereby output VAT is paid at a rate determined by their business type. Beware though, if you are a business providing a service, it is likely that you will meet the definition of a 'limited cost trader', and a 16.5% rate will automatically apply. This is something to avoid!

If your annual turnover is below £1,350,000, you can use the VAT cash accounting scheme. The scheme allows you to account for VAT on your sales on the basis of when you get paid, rather than on tax invoices you issue. If you have cash flow concerns, the scheme could be a lifesaver!

Make sure you are ready for 'Making Tax Digital' for VAT. This comes into effect from 1 April 2019.

UK Tax in Dealing in or Developing UK Land - It's important to seek advice prior to the acquisition of UK land (or assets deriving their value from UK land) as there could be a surprise income tax charge as opposed to capital gains tax. This catches out many unsuspecting property developers and land dealers. Advice should be sought from an experienced tax professional.

Capital Gains Tax

Timing – Given the proximity to the tax year-end, if you are considering making disposals of chargeable assets, it would be prudent to consider delaying exchange of contracts (the tax point) until the new tax year. By delaying the associated tax payment by a year, you would benefit your cash flow. If you are looking at disposing of more than one asset, it may be worth splitting the disposals either side of 6 April, so you benefit from two annual allowances (see below).

Capital gains tax liabilities arising on the disposal of UK residential property will need to be paid within 30 days of completion from 6 April 2020.

Annual exemption – Have you made use of your 2018/19 Capital Gains annual exemption (£11,700 for individuals and £5,850 for trustees - £12,000 and £6,000 from 6 April 2019)? Additionally, if you have brought forward capital losses, consider making sales to utilise these. Each spouse or civil partner has their own capital gains tax annual exemption. Assets can be transferred between spouses and civil partners at a value that gives neither a gain nor a loss position to ensure that each spouse utilises their annual exemption.

Negligible value – Review whether any assets have become of negligible value i.e. became worthless since their acquisition. If so, a capital loss (or even loss deductible against your taxable income in the right circumstances) could be claimed. Additionally, have you made any loans to a trading business that have become irrecoverable? If so, a capital loss could be claimed.

Main residence – Review whether a Principal Private Residence (PPR) relief election should be made where you use more than one property as a residence. If an election has been made, consider whether the election is still made on the most appropriate property. If you have purchased a new property in the last two years, this opens up the window in which you can re-elect a new PPR.

Letting relief abolished - The government in Budget 2018 announced the proposed removal of letting relief and a reduction of the deemed occupation period (from 18 months to 9 months) allowable under Principle Private Residence (PPR) relief (commencing in April 2020). It is proposed that from 6 April 2020, lettings relief will only apply where the owner is sharing occupancy of the home with the tenant(s) under the same roof. If you were planning to sell your second home where you have resided for some time in the past, and it has been let out before sale, now is the time to act to reduce your capital gains tax bill.

Impact of separation – Consider transferring assets between each other before 5 April 2019 if you have permanently separated from your spouse in the 2018/19 tax year. The capital gains tax position for these type of transfers is 'no gain/ no loss' meaning no CGT for the year of separation up to 5 April. After that, CGT applies.

Entrepreneurs' Relief (ER) – The Budget 2018 announcements brought two main changes to ER, from 29 October 2018 the two additional conditions must be met for some shares to qualify for ER; and from 6 April 2019 the 'holding period' will increase from one to two years. When considering disposal of a qualifying business asset, it is practical to consider ER availability well in advance, particularly given the 12 months period condition being increased to 24 months from 6 April 2019.

The relief results in a 10% rate of capital gains tax and could make a significant difference for a potential sale to the business owners. Businesses should be looking to understand the relief when planning ahead and prepare themselves for the future. Don't leave it until the last minute! When the commercial negotiation has been concluded, there is little that can be done to improve the position.

Investors' Relief (IR) – If you are an investor who is neither an officer or an employee in an unlisted trading company and you are considering a sale of the shares in the future you could be allowed to access 10% rate by virtue of this often over-looked relief. The IR relief will apply in addition to the Entrepreneurs' Relief (ER) allowance subject to qualifying conditions. It is important to consider IR when looking to invest in unquoted, trading companies where you will not have involvement as an employee/director.

Non-UK residents – Non-UK tax residents have been subject to UK capital gains tax on residential property since 6 April 2015. From 6 April 2019, the scope of the charge is to be widened to include all immovable property situated in the UK, creating a single regime covering all UK properties held by non-UK residents. Consequently, rebasing will apply from 6 April 2019 on the sale of UK properties by non-UK residents and we urge you to discuss the ramifications with an experienced tax advisor.

Inheritance Tax

Business Property Relief/Agricultural Property Relief – A regular review of the availability of these valuable reliefs is essential given that both circumstances and interpretation of the conditions can change. In particular, corporate structures and partnership structures should be reviewed as this is a common area for issues to arise.

Lifetime planning – Consider your current exposure to inheritance tax and review whether any lifetime planning should be undertaken. Ensure that you are utilising the various lifetime gift reliefs and exemptions.

Will – Is your will up to date? Review the terms of your will and consider whether it needs updating. Consider making a will if you have not made one and additionally consider setting up Powers of Attorney where you have not already done so. It is often forgotten that marriage, invalidates a will.

Residence Nil Rate Band (RNRB) – The RNRB was introduced from 6 April 2017. From 6 April 2019, the additional inheritance tax free band per married couple will rise to £300,000 where applicable. The result is that a couple's first £950,000 suffer no inheritance tax.

The conditions that an estate has to meet to qualify for the use of the additional tax free band (worth up to £350,000 per married couple by 6 April 2020) are complex. There are many circumstances where the full RNRB may not be available. It is, therefore, essential to review the terms of wills and for the property owner to ensure that this valuable additional band is available.

Pensions – The taxation of pension funds on death have significantly changed. Consequently, it is important for pension holders to review what happens on their death and revisit the position (ensuring relevant nominations have been made and are up-to-date etc.). As before, it is important to consider leaving pension funds undrawn and realising income from other sources given the beneficial position on death.

If you would like to discuss any of the matters raised in this document and how we at RRL can assist, please contact Tax Partner Steve Maggs on 01872 276116/01736 339322 or steve.maggs@rrlcornwall.co.uk
For regular tax updates please see Steve Maggs Tax Blog here.