Spring 2019

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Financial news that's relevant to you.

INTRODUCTION

We are moving ever closer to one of the most dramatic changes to our trading status – Brexit. We have added a short update of the present state of play, prior to going to press, with this edition of our printed newsletter spring 2019.

We have also provided a short summary of the recent spring announcement by Philip Hammond, a selection of tax planning pointers as we approach the end of the 2018-19 tax year and other topical issues that may help you minimise your tax liabilities for the current and future tax years.

BUDGET SUMMARY

Spring Statement

The following comments were written on the 13th March 2019, immediately following Philip Hammond's presentation of the 2019 Spring Statement to Parliament. In theory, the government uses the Spring Statement to respond to the most recent forecasts made by the Office of Budget Responsibility (OBR).

In a nut-shell, the OBR forecast that:

- the UK economy will continue to grow, and
- government borrowing, and therefore interest payments, will continue to fall.

Hampered by Brexit uncertainties, the Chancellor made no tax changes, his next round of changes will have to wait until the next Autumn Budget 2019, or April 2019 if we pursue a no-deal Brexit.

All eyes are now fixed on parliament and its attempts to achieve a workable Brexit solution that will have cross-party support.

However, what follows is a short summary of the points Philip Hammond did raise.

Employment

- Since 2010 there are more than 3.5m more people in work.
- Employment is forecasted to increase by a further 600,000 by 2023.

Public finances

Debt fell last year and is forecast to fall continuously to 2023-24.

Tech and the new economy

- In response to a government sponsored consultation, moves are afoot to update competition rules and increase competition in the digital economy.
- The tech market place will be encouraged to allow smaller firms to participate.
- Regulation may be introduced to make users' personal data portable. For example, transfer lists of friends to new platforms and search engine histories to new search engines.

Border access

- From June 2019, citizens of a number of non-EU countries will be able to use e-gates at UK airports and border crossing points.
- The process of abolishing landing cards will also commence from June 2019.

Clean growth

- Government is to explore schemes to encourage energy efficiencies for smaller businesses.
- Developers will need to build in increases in biodiversity.
- The decarbonisation of gas supplies is to be increased by using green gas suppliers.
- From 2025 new homes will need to meet new low energy standards.

Housing and infrastructure

- The government is on track to increase housing supply to its highest level since 1970 by the end of this parliament with an average of 300,000 properties a year.
- A number of new steps were set out in the Spring Statement including the use of the Housing Infrastructure Fund and the Affordable Homes Guarantee Scheme to help the supply of more new homes across the country.

National Living and National Minimum Wage changes

The government has tasked the Low Pay Commission to make recommendations for changes to these rates to apply from April 2020. A response is required by October 2019.

VAT & DUTIES

Brexit – what is AEO status?

There are a number of acronyms we will have to get used to as we drift through the present Brexit withdrawal from the EU.

The Authorised Economic Operator (AEO) status is a key component, a status you should perhaps consider if you are trading with the EU. The definitions of the term are reproduced below courtesy of the gov.uk website.

What is AEO?

AEO status indicates an internationally recognised quality mark that shows your role in the international supply chain is secure and customs controls and procedures are efficient and meet EU standards.

It is not mandatory, but gives quicker access to some simplified customs procedures and, in some cases, the right to 'fast-track' your shipments through some customs and safety and security procedures.

AEO status is for businesses that:

- are a legal entity,
- are established in an EU member state territory,
- are actively involved in customs operations and international trade,
- have an Economic Operator Registration and Identification (EORI) number.

Clearly, eligible importers and exporters should already have AEO status or be in the process of applying.

Full details of the scheme can be accessed from the gov.uk website.

Cash assumes new status

As Brexit concerns continue to plague the business community and economists predict a slow-down in activity, liquidity – the ability to access cash – will assume greater significance.

This short article does not address the numerous ways you can fix this issue, but concentrates instead on VAT, and more particularly, on how you can use the VAT Cash Accounting Scheme (CAS) to reduce the pressure on the cash flow.

If you use the standard approach, where you pay VAT based on the difference between VAT added to your sales invoices and any VAT added to purchase invoices, you will be out of pocket if your customers have not settled their account before you pay any VAT added to their bills.

The CAS works differently. You pay VAT on the difference between VAT received and paid, when customers pay their accounts and you pay your suppliers. In this way, you will have collected the VAT due before you pay HMRC.

If the amount you are owed by customers consistently exceeds the amounts you owe suppliers and if your turnover excluding VAT is below £1.35m, you would be advised to use the CAS. A quick number crunching process will identify the savings in cash retention you could expect to achieve and most accounts software these days will accommodate the changes required by the press of a button.

The CAS is not suitable for all businesses but it can prove to be a valuable custodian of your cash resources if the circumstances fit. Please call us if you would like to discuss the use of CAS in your business.

Advice from HMRC regarding Brexit

HMRC have issued a letter to VAT registered traders that export or import goods to and from the EU. They advise that they follow new Transitional Simplified Procedures (TSP) for customs purposes. At present this is probably a call to action that all affected firms should consider.

For importers the text sets out the following comments:

HMRC is introducing new Transitional Simplified Procedures (TSP) for customs, to make importing easier for the initial period after the UK leaves the EU, should there be no deal. Once you are registered, you will be able to transport your goods into the UK without having to make a full customs declaration at the border, and you will be able to postpone paying import duties. However, for controlled goods you will have to provide some information before import.

Sign up for TSP online at gov.uk/hmrc/eu-simple-importing. You will need an EORI number to do this. EORI is the acronym for an Economic Operator Registration and Identification number.

The type of application you make will depend on your VAT status (are you registered) and whether you are importing or exporting.

For further guidance, including which ports TSP applies to, please go to gov.uk/hmrc/eu-simple-importing.

You will be responsible for making customs declarations for your UK-EU trade in a no deal scenario. Many businesses find the simplest way to make customs declarations is to appoint a customs agent to manage the process for them.

To ensure you are ready you should now:

- Register for your EORI number if you have not done so already at gov.uk/hmrc/get-eori.
- If you want to make declarations through a customs agent, appoint one as soon as possible. If you cannot appoint an agent, or do not think this is the right solution for your business and if you intend to import or export regularly, you should make sure someone in your business is trained to make customs declarations.
- Buy specialist software that links to HMRC's customs systems.
- If you are exporting, register for the National Export System at gov.uk.

For further information, go to gov.uk/hmrc/trade-with-the-eu.

At the time this newsletter was printed the political process continued to be unresolved. Unless future events have dictated otherwise, we recommend that importers and exporters to the EU take a close look at the links embedded in this article and act as appropriate.

BUSINESS

To invest or not to invest?

In his autumn Budget last year, Philip Hammond increased the Annual Investment Allowance (AIA) from £200,000 to £1m. This generous hike in tax relief applies for a fixed two-year period from 1 January 2019.

The AIA allows business owners to write off all the costs of assets that it buys in the year of purchase. Assets that qualify for AIA include commercial vehicles, computer equipment and plant and machinery. Accordingly, there is an incentive to invest in new equipment primarily to secure a reduction in tax payments.

This tendency, to make investment decisions based largely on any tax advantages, needs to be considered more carefully if, as forecasted, we are about to experience a possible slowdown in economic activity.

Aside from any perceived “discounts” to be won when purchasing qualifying assets and claiming the AIA, which other matters should we be considering when making these buying decisions?

We would suggest the following:

- Make investment decisions as part of an all-embracing business planning exercise.
- Will the investment make an appreciable difference to productivity and sales growth?
- Are there alternative investments that could be made, for example: in recruitment of staff and extra work space, that would more readily benefit the business?
- Will any acquisitions be funded from cash flow or increased borrowings and what are the effects on the medium term cash flow forecasting?

This is by no means a comprehensive list. Each investment decision we make needs to fit in and contribute to our longer term planning aims and objectives, and every business will have discrete and distinct goals.

Accordingly, we recommend that you do not rush out and buy equipment primarily to securing a reduction in tax payments, but instead adopt a more wholistic approach: taking into account the many needs of your business to thrive in today's changing markets.

Reconsider your remuneration package

The only thing about tax that we can rely on is that the code that underpins tax legislation is constantly changing.

As we approach the end of the 2018-19 tax year, now is the perfect time to take a good look at the way in which you take personal remuneration from your business and see if there is a more effective strategy available for 2019-20.

Most small company owners have adopted a mix of low salary and high dividends as a way to keep Income Tax and NIC deductions to a minimum, but there are other strategies that can be considered.

For example, you could consider:

- Balances on directors’ loans to or from your company. Could you charge interest on money you have loaned and utilise the personal savings allowance?
- Does your business have the use of your personal assets? Do you (or could you) charge a formal rent for the use of these assets?
- Is it time to revisit the taxable benefits paid by your company? Is there a better way to extract value for your personal needs? For example, switching taxable benefits into one of the remaining tax-free benefits, such as pension provisioning perhaps?

Each individual's tax planning needs are unique and therefore deserve individual attention. If you have not yet thought about your options for 2019-20 call us now so that we can assess any new opportunities that may be available.

Exempt loans to employees

HMRC has published the following list of loan arrangements that you might not have to report to HMRC or pay tax and National Insurance based on the amounts loaned. They are loans you provide:

- in the normal course of a domestic or family relationship as an individual (not as a company you control, even if you are the sole owner and employee),
- with a combined outstanding value to an employee of less than £10,000 throughout the whole tax year,
- to an employee for a fixed and invariable period, and at a fixed and invariable rate that was equal to or higher than HMRC’s official interest rate when the loan was taken out,
- under identical terms and conditions to the general public as well (this mostly applies to commercial lenders),
- that are ‘qualifying loans’, meaning all of the interest qualifies for tax relief,
- using a director’s loan account as long as it is not overdrawn at any time during the tax year.

HMRC’s official rate of interest mentioned above has been fixed at 2.5% since 6 April 2017.

The operation of these exemptions can

become a nightmare to administer and we recommend that you seek professional advice before providing loans to employees, directors or close relatives, in any of these categories.

EMPLOYMENT & PAYROLL

Recording your mileage

Whether you are self-employed or employed, if you use a car with a mix of private and business use you are required to keep a record of the business/private mileage split when making claims for tax purposes.

If you are employed and using your own car

You will need a record of your business mileage to make a claim from your employer. Usually, employees using their own car are paid a rate per mile. HMRC allows payments of up to 45p per mile for the first 10,000 business miles in a tax year. Over 10,000 this rate is reduced to 25p per mile.

Tax tip: If you are paid less than these rates you can claim the difference as tax deduction. If you are paid more than these rates, the excess will be treated as a taxable benefit.

If you are employed and using a company car

If you employer pays all your fuel costs, including private use, you will incur a car and a car fuel benefit charge.

Tax tip: To counter this, it is often advisable to pay your employer for the private fuel and avoid the car fuel benefit charge.

If you are self-employed

If you are self-employed and use a car in your business, there will usually be a private use adjustment that is required when you claim for running costs or capital allowances. This adjustment requires that you record your total and business/private mileage split.

Arbitrary adjustments will not pass muster with HMRC, you will need evidence to back up your claim.

What records should be kept

You will need to record your car mileage reading at the end of each tax year. A simple way to do this is take a picture of your dashboard with your phone, images are usually date stamped. You would need to duplicate this process if you changed your car in the middle of a tax year: recording the closing mileage for the old vehicle and the opening mileage for the new vehicle.

You will then need a record of journeys made and whether they are business or private ones.

There are numerous recording apps available for your phone or tablet and this will save you keeping laborious manual records.

Without real evidence your claims to HMRC will be difficult to uphold if challenged by HMRC.

Repay your private fuel costs

Directors and employees may be flattered and pleased that their employer pays for all their company car's fuel, including fuel used for private purposes. They will be less enthused when a car fuel benefit appears on their annual tax statement. This tax charge is based on the CO_2 efficiency of your vehicle.

For example, consider Andy, who uses a company car with a CO_2 rating of 155g/km. Based on this number, Andy will incur a car fuel benefit charge for 2018-19 of £7,488. This amount is effectively added to Andy's taxable income and will be subject to a tax charge at his marginal rate.

- If we assume Andy is a basic rate tax payer on all his income this will increase his tax by £1,497 in the tax year 2018-19.
- If Andy's fuel benefit charge is taxable at the higher rate (40%) the charge will double to £2,995.

Andy uses his car primarily to visit customers across the UK, his annual mileage is 18,000, but very little is for private use; he uses a second family car for most of his private motoring.

Andy keeps a log of his business miles, and he records his car mileage each 5th April. By simple difference he calculates that his annual private mileage for 2018-19 is 3,250 miles.

Armed with this information, Andy approaches his employer and offers to repay the private fuel funded by the firm. He calculates the amount refundable by using published car fuel rates on the gov.uk website. He uses petrol and the rate per mile published by HMRC is 15p per mile.

Andy writes out a cheque for £487.50 (3,250 x 15p) and the employer advises HMRC that private fuel has been repaid and no car fuel benefit charge applies for 2018-19.

Andy would have paid Income Tax at 40% on the fuel benefit - £2,995 for 2018-19 – so at a stroke he has saved himself a little over £2,500. Not a bad result for the inconvenience of keeping a mileage log and writing out a cheque.

Two further points to observe:

- Company car users have until 5 July 2019 to make restitution to their employers for the tax year 2018-19.
- If the calculations do result in repaying the private fuel cost, this will also save your employer a Class 1A NIC charge. In Andy's case, this saved his employer £1,033.

If you presently benefit from private fuel provision by your employer, this is an exercise that is well worth undertaking for 2018-19 and subsequent tax years.

PERSONAL

Last minute reminders for higher rate tax payers

A last minute reminder for strategies to reduce the tax charge for higher rate taxpayers. If you pay Income Tax at 40% or more for 2018-19, or are likely to do so in 2019-20, the following check list may prove to be useful:

- If your income before tax is approaching and likely to exceed £100,000 consider deferring income or increasing tax allowable payments to avoid the loss of your personal tax allowance – you will be paying Income Tax at a marginal rate of 60% on earnings between £100,000 and £123,700 for 2018-19 (between £100,000 and £125,000 for 2019-20).
- Have you maximised your tax allowable pension contributions?
- Do not forget to claim higher rate relief for any charitable donations you have made, and do not forget that it may be possible to carry back donations made in 2019-20 to 2018-19.
- If your employer pays for private fuel for your company car, consider repaying the fuel cost as this will likely be a lower amount than the tax payable on the car fuel benefit charge.
- Could you defer bonuses for 2018-19 if your estimated earnings for 2019-20 are lower?
- You could transfer any interest in income producing assets to your spouse or civil partner without any tax consequences. There may not be time to consider this for 2018-19, but for 2019-20 this may be a viable tax saving option.

The above ideas are not the only options available to reduce the impact of higher rate Income Tax. Readers affected, who do not consult with us on a formal basis, should consider the value of an annual tax planning session to take advantage

of any reliefs and strategies they could claim or adopt.

IHT planning – record your gifts

Gifts between married persons or civil partners are free of any Inheritance Tax (IHT) charge, as long as both parties are permanently resident in the UK.

There are also a range of gifts – between £250 to £5,000 – that you can make without incurring an actual or possible risk of an IHT charge. They are:

- You can give away £3,000 worth of gifts each tax year (6 April to 5 April) without them being added to the value of your estate. This is known as your annual exemption. You can carry any unused annual exemption forward to the next year - but only for one year.
- Wedding or civil ceremony gifts of up to £1,000 per person (£2,500 for a grandchild or great-grandchild, £5,000 for a child).

You can use more than one of these exemptions for the same person - for example, you could give your grandchild gifts for their birthday and wedding in the same tax year.

Additionally, you can:

- give as many gifts of up to £250 per person as you want during the tax year as long as you have not used another exemption on the same person,
- fund payments to help with another person's living costs, such as an elderly relative or a child under 18, or
- make gifts to charities and political parties.

If you want to make gifts on a regular basis that exceed any of these limits, you can still avoid an IHT charge if you can demonstrate that the gifts were made out of your disposable income. To do this you will need a record of your net income after tax, your personal expenditure and the amounts gifted.

Any lifetime gifts not covered by the above reliefs will be potentially chargeable to IHT. Gifts that fall into this category and made in the last three years before death will be subject to a 40% IHT charge. Gifts made between three and seven years prior to the date of death will be subject to decreasing rates on a sliding scale from 40% to just 8%.

The key to securing the best result for your family is to keep accurate records of gifts made so that your estate can demonstrate exactly what IHT, if any, is due. More importantly, the executors will have the evidence they need to rebuff any spurious claims by HMRC.

We can help you do this. Call us now so we can make a start creating the required records.

Do not forget the marriage allowance

If you or your spouse (or civil partner) is a basic rate tax payer and one of you has unused Income Tax personal allowance for 2018-19, part of the unused allowance can be transferred to the other.

For 2018-19, £1,190 of the unused allowance can be transferred in this way. This would provide the partner paying tax with a maximum £238 tax refund. And there is still an opportunity to make a similar claim for previous tax years.

FINANCIAL CALENDAR

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.

March 2019

31 Last minute planning for 2018/19 tax year. Make sure to use any CGT and IHT annual allowances and exemptions.

April 2019

5 Last day of tax year (6 April 2019, first day of new tax year).

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

May 2019

3 Submit employer forms P46 (car) for quarter to 5 April 2019.

31 Last day to issue 2018/19 P60s to employees.

July 2019

5 Final date to agree 2018/19 PAYE Settlement Agreements (PSA).

6 Last date for returns of expenses and benefits (forms P11D, P9D and P11D(b)) for 2018/19 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 2018/19 (forms 34, 35, 39, 40 and 42).

14 Due date for CT61 return and CT payment for quarter to 30 June 2019.

22 Class 1A NICs for 2018/19 due (19th if paid by cheque).

31 Due date for second payment on account of 2018/19 Income Tax and Class 4 NICs.

31 Last day to pay 2017/18 tax to avoid second automatic 5% surcharge (unless late payment agreed with HMRC).

August 2019

2 Submit employer forms P46 (car) for quarter to 5 July 2019

October 2019

5 Deadline to notify HMRC of chargeability to Income Tax or CGT for 2018/19.

14 Due date for CT61 return and CT payment for quarter to 30 September 2019.

31 Deadline to submit 2018/19 Self Assessment tax return if filed on paper.

November 2019

2 Submit employer forms P46 (car) for quarter to 5 October 2019.

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.

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Alwyns Chartered Accountants
Crown House, 151 High Road
Loughton, Essex IG10 4LG

020 8502 0411

www.alwynsllp.com