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SHEEN STICKLAND
CHARTERED ACCOUNTANTS Est. 1944

The Quarterly Review - Spring 2018

Strategies for saving tax ahead of the 5 April year end

As the new tax year approaches, now is the time to make sure that you have made the most of the available allowances and exemptions for 2017/18. Here, we outline some key measures to help boost your business and personal wealth.

Business strategies

Make use of capital allowances

Most businesses can take advantage of a 100% Annual Investment Allowance (AIA), which can be applied to the first £200,000 of plant and machinery expenditure (excluding cars). Plant and machinery includes items such as furniture, certain fixtures, computers, commercial vehicles, machines and similar equipment used in the course of doing business. The AIA applies to businesses of any size and most business structures except partnerships with corporate partners, although provisions are in place to prevent multiple claims.

TIP: A purchase made just before the end of the current accounting year means that the allowances are usually available a year earlier than if the purchase was made just after the year end.

Consider the company car

Many businesses choose to make use of company cars – however, have you considered whether a company car is the most tax-efficient option for your needs?

In 2017/18, car benefit and car fuel benefit is calculated at up to 37% of the list price (car), and by the same percentage on a notional £22,600 (fuel). Every year, the percentages increase, and further changes to the rules are set to come into effect in April 2018, so now may be the ideal time to review your company car policy.

TIP: Paying employees for business mileage in their own vehicles may prove more advantageous, especially if their business mileage is high. You may also wish to consider a company van. We can discuss the options with you.

Extract business profits tax-efficiently

There are a number of ways in which you can extract profits from your business tax-efficiently.

Some business owners may opt to take a dividend rather than a salary or a bonus. While a salary or bonus can carry up to 25.8% in employer and employee national insurance contributions (NICs), dividends are paid free of NICs. Dividends are not, however, tax deductible for the company. This area requires careful consideration, so please speak to us.

TIP: The Dividend Allowance is being cut from £5,000 to £2,000 from 6 April 2018, so it may be beneficial to take dividends before the 2017/18 tax year end. If feasible, funds can then be loaned back to your company paying a commercial rate of interest, thus taking advantage of your savings allowances.

Personal strategies

Make tax-efficient savings

Over the years, Individual Savings Accounts (ISAs) have proved to be a popular way to save. The overall annual ISA subscription limit is currently £20,000.

The new Lifetime ISA, available to adults aged under 40, allows first-time buyers and those saving for retirement to deposit up to £4,000 into an account each year. The government will add a 25% bonus on any savings put into the account before their 50th birthday.

TIP: Make sure you have fully utilised your ISA allowance, ahead of 5 April.

Maximise your retirement income

If you are not currently in an appropriate employer pension scheme, it is important to make your own pension arrangements.

Relief is available on annual contributions limited to the greater of £3,600 (gross) or the amount of UK relevant earnings eligible for tax relief, and subject also to the annual allowance, which is generally £40,000.

TIP: Pension contributions must be paid on or before 5 April 2018 to be applied against 2017/18 income.

Consider the whole family

All individuals – including children – have their own tax-free personal allowance, which is £11,500 in 2017/18, so you may wish to consider spreading your income more evenly across the family. (Some restrictions apply: please contact us for further information.)

TIP: The Marriage Allowance is available to married couples and civil partners where one earns no more than £11,500 and neither pays tax at the higher or additional rate – potentially reducing the tax liability by up to £230 in 2017/18.

These are just some of the measures that you may wish to consider. Please contact us for further advice.

Pensions: protecting your lifetime allowance

Did you know that it is still possible to apply to protect your pension(s) against previous reductions in the lifetime allowance? The lifetime allowance is set at £1 million in 2017/18, however Fixed Protection and Individual Protection may mean it is possible to save up to £1.25 million without incurring a tax charge.

What is the lifetime allowance?

The lifetime limit sets the maximum figure for tax-relieved savings in a pension fund. The lifetime allowance fell to £1.25 million on 6 April 2014, and then again to £1 million on 6 April 2016. From April 2018 onwards the lifetime allowance will increase annually in line with the Consumer Prices Index (CPI), rising to £1,030,000 for the tax year 2018/19.

Where the value of the scheme(s) exceeds the lifetime limit when benefits are drawn, there is a tax charge of 55% of the excess if taken as a lump sum, and 25% if taken as a pension.

Protecting your allowance

However, the good news is that it may be possible to apply for protection where an individual has significant pension contributions. There are two types of protection available. The first is known as 'Individual Protection 2016'. This enables savers to fix their lifetime allowance at the value of the fund at 6 April 2016, provided the fund has reached at least £1 million in value at that date. However, the value to be protected cannot exceed £1.25 million.

Further contributions are allowed under this protection, but withdrawals exceeding your protected lifetime allowance will be subject to tax. You cannot apply for Individual Protection 2016 if you have either Primary Protection or Individual Protection 2014. In most cases you can check whether you already have protection by signing in to your online account.

The other type of protection is known as 'Fixed Protection 2016' and will be of benefit if total pension savings are expected to exceed £1 million when the savings are accessed in the future.

Fixed Protection retains the £1.25 million lifetime allowance. A critical condition for this protection is that no further contributions can occur from 6 April 2016 (except in limited circumstances). You cannot apply for Fixed Protection 2016 if you already have Enhanced Protection, Primary Protection, Fixed Protection or Fixed Protection 2014.

How do I apply?

Applications for Individual and Fixed Protection can be made online, although you will need to set up an account to use HMRC online services. There is currently no deadline for making applications.

After applying for lifetime allowance protection, you will receive a protection notification number and a scheme administrator reference. Your scheme administrator will require these numbers when you decide to take money from your pension scheme.

The pensions rules are notoriously complicated and individuals should seek professional advice to ensure that their savings are as tax-efficient as possible.

Simple Assessment allows HMRC to assess the income tax and capital gains liability for certain taxpayers, without the need for them to complete a self assessment tax return. HMRC will instead use the data it already holds to calculate the tax owed.

Who is affected?

Back in the 2015 March Budget, the previous Chancellor, George Osborne, announced the government's intention to phase out the self assessment tax return, in favour of a digital personal tax account, or PTA.

However, Simple Assessment currently only applies to two groups of taxpayers:

- New recipients of the State Pension, who have income which exceeds the personal allowance for the 2016/17 tax year
- Individuals who have underpaid PAYE tax, and whose payments cannot be collected via their tax code.

These individuals will no longer need to complete a self assessment tax return. HMRC will write to affected individuals with a Simple Assessment calculation (SAC), in the form of either a P800 or a Simple Assessment letter (PA302).

How it works

The SAC will work out an individual's liability to tax based on the information provided to HMRC by third parties, such as employers, banks and pension providers. This includes any earnings under PAYE, state or employer pensions, employee benefits and expenses, and savings interest.

The SAC will detail the amounts chargeable to income tax and capital gains tax, the amount payable and how this has been calculated, together with the date payment is due and how the payment can be made.

Taxpayers must carefully check the details on the SAC and pay any tax due by the deadline. Any queries relating to the information provided must be raised with HMRC within 60 days of the issue of the SAC.

Existing state pensioners who have received a notice to file a tax return for the 2016/17 tax year must complete their return in the normal way. In 2017/18 they will receive a Simple Assessment notification from HMRC.

Although we cannot currently access your PTA, we can help with any queries you may have relating to your personal income, as well as offering advice on the correct tax treatment and a range of strategies to help maximise your income.

Are you prepared for the new data protection regulation?

The new General Data Protection Regulation (GDPR) is set to come into effect on 25 May 2018, and will require all organisations that deal with individuals living in an EU member state to protect the personal information belonging to those individuals, and have verified proof of such protection.

Under the new regulation, firms must be accountable for their data usage, and must identify a lawful basis for processing personal data. The GDPR builds on existing principles under the Data Protection Act, and also introduces some additional rights.

The new regulation applies to processing carried out by organisations operating in the EU, and also to those offering goods or services to individuals who reside in the EU. The UK's decision to leave the EU will not affect the introduction of the GDPR, so it's essential that your business is prepared.

Businesses are strongly advised to review their data privacy and security practices, to help ensure they are compliant. You may wish to provide GDPR training to your employees, and review your procedures relating to consent, requesting fresh consents from customers where necessary. The financial penalties for non-compliance with the GDPR are severe, with fines costing up to €20 million, or up to 4% of total annual worldwide revenue, whichever is the greater.

Further guidance can be found on the Information Commissioner's Office website: www.ico.org.uk.

New National Minimum Wage and National Living Wage rates

In the 2017 Autumn Budget, Chancellor Philip Hammond announced increases in both the National Minimum Wage (NMW) and the National Living Wage (NLW). The new rates will apply from April 2018, and are as follows:

	Apprentices*	16 - 17	18 - 20	21 - 24	25 and over
National Minimum Wage	£3.70	£4.20	£5.90	£7.38	-
National Living Wage	-	-	-	-	£7.83

*Under 19, or 19 and over in the first year of their apprenticeship.

Please note, there are separate minimum wage rates for agricultural workers. Visit www.gov.uk/agricultural-workers-rights/pay-and-overtime for more information.

Employers can also choose to pay their employees the Voluntary Living Wage (VLW), which is set by the independent Living Wage Foundation. The VLW is calculated based on workers' actual living costs, and the wage currently stands at £8.75 per hour, with the London VLW being £10.20 an hour.

Abolition of Class 2 NICs is delayed

The government has delayed the abolition of Class 2 national insurance contributions (NICs) by a year, to 6 April 2019.

Under the reforms, which had been due to take effect in April 2018, Class 2 NICs will be abolished and Class 4 contributions will be reformed to include a new threshold, the 'Small Profits Limit'.

The government stated that 'the delay will allow time for [it] to engage with interested parties and parliamentarians with concerns relating to the impact of the abolition of Class 2 NICs on self-employed individuals with low profits'.

Access to contributory benefits for the self-employed is currently gained through Class 2 NICs. After the abolition, those with profits between the Small Profits Limit and Lower Profits Limit will not be liable to pay Class 4 contributions, but will be treated as if they have paid Class 4 contributions for the purposes of gaining access to contributory benefits. All those with profits at or above the Class 4 Small Profits Limit will gain access to the new State Pension, contributory Employment and Support Allowance and

Those with profits above the Lower Profits Limit will continue to pay Class 4 contributions.

HMRC considering plans for new points-based penalty system

HMRC has announced its intention to reform the current penalty system for late or missing tax returns, as part of its review of tax administration and compliance.

Under the proposed new system, taxpayers who miss the self assessment filing deadline could receive driving licence-style points instead of an immediate fine. Taxpayers would only be penalised once their points reach a specified level. Points would also be wiped from an individual's records after a set period of time.

Under the current system, taxpayers who fail to submit their tax return by the 31 January deadline are liable to an instant £100 fine, with further penalties applying for prolonged delays.

The new 'holistic' approach is intended to focus on taxpayers who persistently break the rules, rather than those who make genuine errors of judgement.

Outlining its plans, the Treasury said: 'The government will reform the penalty system for late or missing tax returns, adopting a new points-based approach. It will also consult on whether to simplify and harmonise penalties and interest due on late payments and repayments.

'This will ensure that the system is fair, simple and effective across different taxes. Final decisions on both measures will be taken following this latter consultation.'

Web Watch
Essential sites for business owners

smallbusinesscommissioner.gov.uk

New commissioner set up to promote fair payment practices for small businesses.

investopedia.com/uk

Financial news and information from around the world.

ippr.org

Economic think-tank seeking to revise economic policy for post-Brexit Britain.

uk.reuters.com/business

Provides up-to-date information on stock markets and business issues.

Tax Tip: Review your business structure

You may be able to reduce your annual tax bill by reviewing your business's structure, as there are often significant tax savings to be made. During the early years of a business, it may be preferable to operate as a sole trader or in a partnership. However, as your profits increase, you may find it more beneficial to form a limited company.

Incorporating your business also has many non-tax advantages. Incorporated companies enjoy legal continuity, as they are legal entities in their own right. In addition, if a business owner ever wished to transfer ownership, as an incorporated company this can be achieved with greater ease than if trading as a sole trader or in a partnership.

Please get in touch with us for more information.

Please visit our website to find more articles from our quarterly review or sign up to our e-newsletter for the full digital version of OnAccount. www.sheen-stickland.co.uk

Reminders for your diary

March 2018

19 PAYE, Student loan and CIS deductions are due for the month to 5 March 2018.

31 End of corporation tax financial year.

End of CT61 quarterly period.

Filing date for Company Tax Return Form CT600 for period ended 31 March 2017.

Last minute planning for tax year 2017/18.

April 2018

5 Last day of 2017/18 tax year.

Deadline for 2017/18 ISA investments and pension contributions.

Last day to make disposals using the 2017/18 CGT exemption.

14 Due date for income tax for the CT61 period to 31 March 2018.

19 Automatic interest is charged where PAYE tax, Student loan deductions, Class 1 NICs or CIS deductions for 2017/18 are not paid by today. Penalties may also apply if any payments have been made late throughout the tax year.

PAYE quarterly payments are due for small employers for the pay periods 6 January 2018 to 5 April 2018.

PAYE, Student loan and CIS deductions are due for the month to 5 April 2018.

Deadline for employers' final PAYE return to be submitted online for 2017/18.

May 2018

3 Last day of 2017/18 tax year.

19 PAYE, Student loan and CIS deductions are due for the month to 5 May 2018.

31 Deadline for forms P60 for 2017/18 to be issued to employees.

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