

As we approach the end of the tax year, individuals and businesses may want to consider actions which can be taken to reduce their tax bill. Here are a few ideas which may help.

Making the Most of Gift Aid

Gifts can be made in many guises. But the most obvious route is through the Gift Aid scheme in the form of cash.

Provided the individual making the gift has paid sufficient income or capital gains tax and makes a Gift Aid declaration, the **charity can claim back from HM Revenue and Customs (HMRC) 25 pence for every £1 donated.**

For those who pay the higher or additional rate of tax, an amount of income equal to the gross gift is pushed down into the lower rates of tax meaning more income is taxed at the lower rates giving the higher rate taxpayers further tax relief of up to 26% in Scotland and 25% in the rest of the UK.

There is even better news for those with **income just over the £100K** threshold at which point the personal allowances are being reduced.



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For example, in this current tax year an individual with income of £123,700 who makes a net Gift Aid payment of £20,000 would gain tax relief due to the Gift Aid payment of £5,000. On top of this, lost personal allowances are retrieved, providing additional relief of **£4,740.**

The result is the actual cost to the individual of the Gift Aid payment being only **£10,260.** The charity actually receives **£35,000.** And if the individual was a **Scottish taxpayer** the saving would be even **greater** reducing the cost down to **£9,892.**

Gift Aid payments could also have a positive effect for those taxpayers with incomes just over £50,000 and suffering the **high income child benefit charge** or where their adjusted income, pre the Gift Aid payment, is in excess of the £150,000 limit, at which point the tapered pension tax charge comes into effect.

It may be possible to **carry back the Gift Aid relief to the previous tax year** as long as the donation was made and an election to carry back accompanied the original Tax Return by the filing date of the 31st January following the tax year the contribution is to be carried back to.

Making the Most of the Annual Investment Allowance (AIA)

Businesses can claim AIA on almost all purchases of plant and machinery (with a few exceptions) subject to a maximum of £1,000,000 for the year which commenced on 1st January 2019.

The allowance is given at 100% meaning it is possible to gain tax relief on all of the business spend on these items.

This amount is apportioned over the accounting year, however it may be a great time to review business plans for making a purchase to gain 100% tax relief!

Top tip:

Discuss business expenditure plans with us before the purchase is made so that the maximum AIA is available.

Pension Tax Charge - could you receive a surprise tax bill?

The Pension Tax Charge can cause a surprise tax bill of up to £13,500 or as much as £13,800 for Scottish resident taxpayers.

Any individual can make pension contributions of £2880 net or 100% of their relevant UK earnings but must be aware that this is limited by the annual allowance and that relevant earnings do **NOT** include dividends and investment income. Meaning company directors who take a low salary from their company and make their remuneration up with dividends, must be specifically wary of this limit.

The key triggers for the pension tax charge are those individuals with income from all sources (less a few reliefs) in excess of £110,000 who have circumstances which will bring the annual pension contributions from all sources (both final salary and defined contribution schemes) close to annual contributions of £40,000 or brings the value of all pension schemes when added together close to the lifetime allowance.



It is possible the individual may have unused annual pension allowances from past years which can help offset any substantial pension contributions paid in any one year.

The pension contributions can either be an employer contribution, an employee contribution or a mixture of the two, to which built up benefits from any defined benefit scheme are also added.

It's a complex tax matter which will require looking back to check for the unutilised pension allowances in the past three years but the initial starting point are the statements issued annually by the pension companies. However, if undertaken, a pension review would spot opportunities for additional pension contributions and could potentially save additional tax of **£13,500** or more!

Top tip:

Business owners who take dividends from their companies may wish to consider their remuneration options before the end of the tax year to give more scope for pension contributions.

Paying Capital Gains Tax by Instalments

It's a little-known option for those selling assets that if the payment for those assets is made in instalments then the Capital Gains Tax (CGT) due can also be paid by instalments.

Usually when an asset is sold HM Revenue and Customs (HMRC) require the date the asset becomes the property of another person to be the date of disposal and the date on which the Capital Gains Tax is determined, even if the consideration for that asset is paid over two or more payments. However, when the contract for sale specifies payments by instalments, the dates and amounts of the instalments are detailed in the contract and the final instalment is more than 18 months after the original contract date, it is possible to apply to HMRC for the capital gains tax due on those payments to be made over a period of time.

Top tip:

The calculation is complicated and the application to HMRC must be made in sufficient time before the first due date, however this can make a significant difference to an individual's ability to make the payments of CGT on the due dates.

Capital Gains Tax Annual Exemption

The current rate of Capital Gains Tax (CGT) exemption is £11,700 for an individual and any gain in a tax year up to that amount is exempt from CGT.

It is possible for a couple to maximise their CGT annual exemption shortly before the end of a tax year. It's worth remembering the CGT annual exemption cannot be carried forward so those owning shares and other investment may want to consider utilising their annual exemption each year.



Moving Rental Income between Spouses and Civil Partners

A tax saving can usually be made by holding assets in the name of the member of the couple paying the lowest rate of tax.

Where a couple owns one or more investment properties, the ownership is usually a joint tenancy which means each of the couple jointly own 100% of the property and in the eyes of the law act as one single owner. As such the tax position is that each of the couple are taxed on half of the rental income.

In some cases, where one of the couple pay a higher rate of tax it may be worth considering transferring the ownership to tenants in common. This is the legal term for each of the couple owning a specified separate share of the property and as such are taxed on their separate share of the rental income. If the majority of the ownership and, therefore, the rental income is owned by the member of the couple with the lowest rate of tax, there could be a substantial tax saving.



Bed and Breakfast Options?

Where a shareholding has grown in value one of the couple sells the shares they own and the other in the couple immediately buys the holding back. The holding is retained but the cost has now increased to the buyback cost, giving a higher starting cost when calculating the CGT due on any future gain.

If a shareholding has reduced in value, but the couple wishes to retain the shares the same *bed and breakfast* sale and repurchase could be undertaken but this time to crystallise the loss which can be used to offset any current year gains over the annual exemption or carried forward to be used against any future gains.

Low Earnings from Self-Employment?

Self-employed individuals pay tax and Class 4 National Insurance Contributions (NIC) based on their profits in a tax year. Class 4 NIC's **DO NOT** count towards any state benefits.

Class 2 NIC's are slightly different. They are a fixed amount and paid based on the number of weeks in a tax year. They are paid through the self-assessment system on profits above the Small Profits Threshold (currently £6,205) or can be paid by a regular payment throughout the year. They count towards various state benefits including: basic state pension, maternity allowance, bereavement benefits and employment and support allowance.

Eligibility for these benefits requires the individual to have paid a certain amount of Class 2 NIC and so during periods when profits are below the Small Profits Threshold the individual may still choose to make payments of Class 2 NIC to build entitlement towards benefits.



Top tip:

It is possible to review current progress towards full entitlement to basic state pension on the digital tax account. We will happily advise you on this.



Tips on Tipping!

Many of us leave a little extra to show appreciation for great service or excellent quality when we eat out, but do you know what happens to your tip and how it is treated by HM Revenue and Customs (HMRC)?

Income Tax is always payable on any income from employment and HMRC consider tip or gratuity income to be from employment. Where a service charge is added to a bill before it is presented to the customer it is important to know if the charge is mandatory or optional and discretionary. This should be clearly advertised to a customer.

When the service charge is **mandatory**, is collected by the employer in cash or by an addition to a card payment and is paid over to the employee, that employee will have PAYE tax deducted from the payment. In addition to this, if the employer or restaurant owner makes the decision how the tips are shared out, say a different percentage to the waiting, kitchen and bar staff, the payment of their individual share of the tip is also subject to National Insurance (NI) contributions for both the member of staff receiving the payment and the employer sharing out the tips!

Example

If a gratuity of £5.00 is added to a card payment which the employer distributes, the member of waiting staff will pay £1.00 in PAYE tax and 60 pence in NIC. The employer will pay 69 pence in NIC. HMRC will have taken £2.29 from your generous £5.00 tip!

To prevent this extra deduction of NI from gratuities, restaurant owners often leave the staff to decide whether to pool tips and what proportion each member of staff will receive, however this could cause difficult discussions for the staff member trying to organise the distribution and disputed between staff. Because of this employers in the hospitality industry often put in place a third party to administer the collection, distribution and payment of tips to staff. Provided this third party is responsible for all decisions around the rate of distribution of the tips and is an entirely separate entity from the employer, then the tip is NIC exempt. In the example above, from the £5 tip, HMRC will receive only £1 the employee will receive £4.00

Remember, if the payment of a gratuity or tip is optional, totally at the discretion of the customer and paid in cash to the member of staff, there is no deduction of PAYE tax and the payment is NIC exempt, however the individual staff member must declare all tips to HMRC and pay income tax on these gratuities.

Making Tax Digital - Update

Completing VAT Returns Digitally

Reporting of VAT goes digital from **1st April 2019**. This is the first of the stages HMRC have put in place to take the tax affairs of individuals and businesses in the UK into the digital age.

It will affect all businesses with a turnover of £85,000 or more (although some businesses start dates have been deferred) with entry points being the VAT quarter ending after 1st April 2019.

Paper records cease to meet legal requirements within tax legislation from that date and businesses will need to use a compatible piece of reporting software to make their VAT returns.

All deferred businesses will have by now had their confirmation of deferment until 1st October 2019.

Those businesses using the **Annual Accounting Scheme** will have their entry into the digital reporting scheme deferred until 1st October 2019 however the requirement to retain digital records and submit their VAT returns through enabled software to HMRC remains. There will be a 1 year soft landing until 30th September 2020 to help in the transition.

Top tip:

If your business is VAT registered with a turnover of £85,000 or more and you have not yet started your transition to digital record keeping please contact us to ensure a smooth transition.



We are here to help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

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