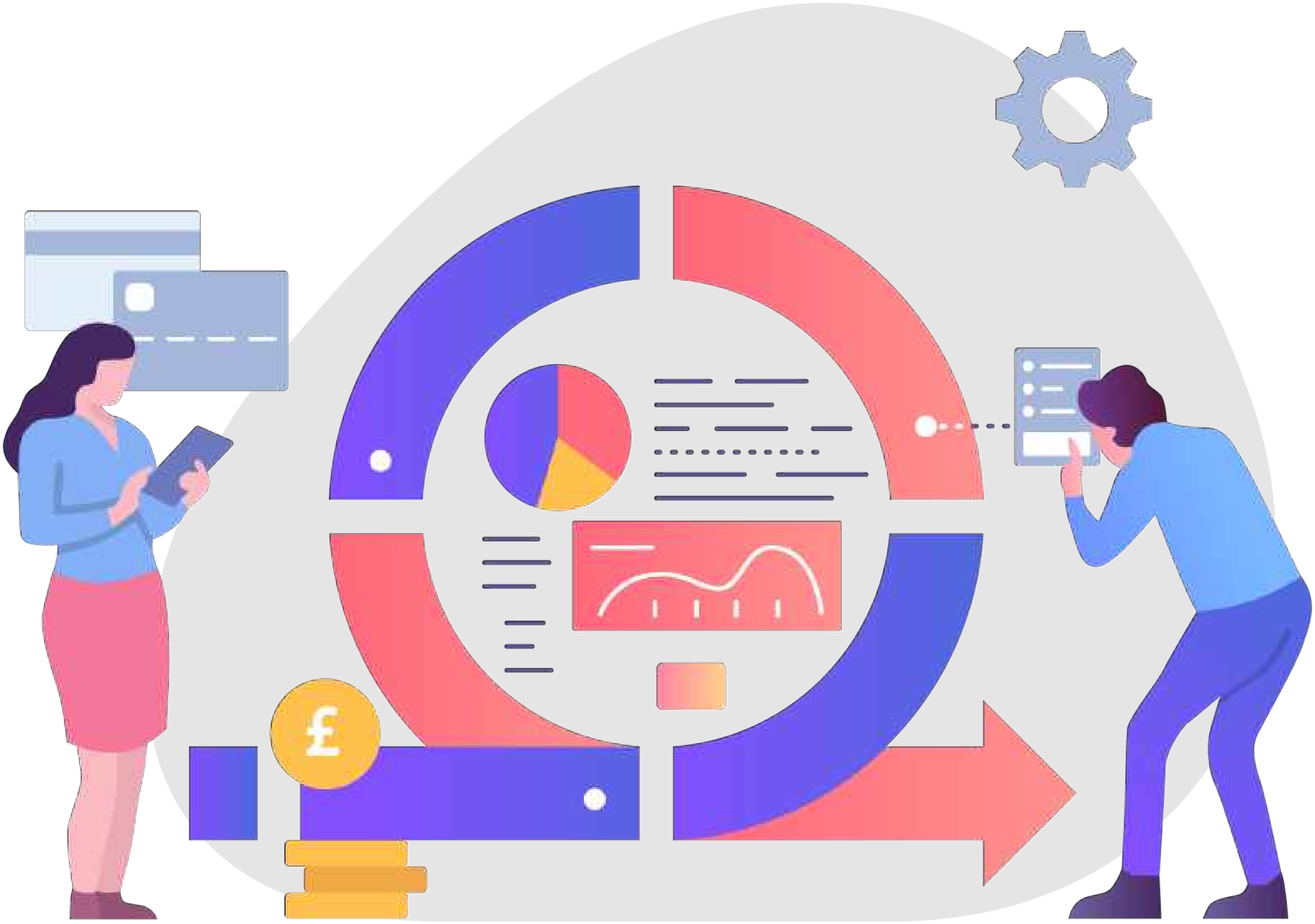
Year-End Tax Guide **2019/20**

Rates, reliefs and allowances to use by **5th April 2020**



DavisGrant

020 8477 0000

www.davisgrant.co.uk

info@davisgrant.co.uk

HOW TO USE THIS TAX GUIDE

The last few months of the tax year are the ideal time to pause and reflect, and to make sure you've organised your finances as efficiently as possible before the new tax year begins on 6 April 2020.

It's important to consider this from every angle: have you maximised all of your tax-free allowances? Have you claimed any reliefs available? And have you made plans for future changes?

This guide will help you to answer those questions and more, with detailed summaries of the tax rates, allowances and reliefs that apply to businesses and individuals for the remainder of 2019/20.

Each section comes with a set of planning points, too, which you can use as a checklist to ensure you've covered all the key areas to consider.

And, of course, you can contact us if you have any questions or want to discuss your tax planning further.

Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to future change. ISA and pension eligibility depend on individual circumstances.

FCA regulation applies to certain regulated activities, products and services, but does not necessarily apply to all tax-planning activities and services.

This document is solely for information purposes and nothing in it is intended to constitute advice or a recommendation.

While considerable care has been taken to ensure the information contained in this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information.

CONTENTS

PERSONAL ALLOWANCES & RELIEFS

The personal allowance is £12,500. Non-savings and non-dividend income above this threshold is taxed at rates from 20% to 45% (or 19% to 46% in Scotland).

A higher marginal tax rate may be payable between £100,000 and £125,000 when the personal allowance reduces by £1 for every £2 above £100,000 to give a marginal rate of 60% (61.5% in Scotland) in this band for non-savings and savings income.

You can transfer £1,250 of your unutilised personal allowance to your spouse or civil partner if you do not pay income tax, and neither of you is a higher-rate taxpayer. This is known as the marriage allowance.

Tax on savings

The personal savings allowance allows a basic-rate taxpayer to receive up to £1,000 of savings income tax-free, while a higher-rate taxpayer can get up to £500 of savings income without any tax being due.

There is no relief for additional-rate (45%) taxpayers.

The first £2,000 of income from dividends in 2019/20 is tax-free, while income from dividends that exceeds this amount is taxed at rates of 7.5%, 32.5% or 38.1%.

Key considerations

- Are you and your spouse or civil partner using all of your personal allowance? If not, consider using the marriage allowance.
- Are there opportunities to utilise any yet unused allowances in 2019/20?
- Can you reduce exposure to high marginal tax rates by retaining your full personal allowance?
- Is it worth considering tax-free alternatives instead of a bonus or a salary increase?
- Is your dividend strategy fully tax-efficient?
- Can you utilise rent-a-room relief which, for individuals, is £7,500 or £3,750 for co-owners?

ISAS

If you are planning to use this year's £20,000 ISA allowance, you need to use it before 5 April 2020. There's no rollover from one tax year to the next.

Growth, income and withdrawals are not liable for income or capital gains tax, but the value of an ISA is part of your estate for inheritance tax purposes.

Under-18s, or those who wish to save on behalf of a minor, can put up to £4,368 into a **junior ISA**.

As part of the £20,000 ISA allowance, it's possible to invest up to £4,000 in a **lifetime ISA** which receives an annual government bonus of up to £1,000 a year.

You must be over 18 but under 40 years old to open a lifetime ISA, which can be used to buy a first home or fund retirement. Further scheme rules and early withdrawal penalties apply.

Help-to-buy ISAs allow over-16s to save up to £200 a month towards securing a mortgage to purchase their first home – but the scheme closed to new applicants on 30 November 2019.

Those with a help-to-buy ISA can continue to save into them until 30 November 2029, subject to change.

Providing the funds are used to buy a first home, the savings will earn interest and qualify for a 25% government bonus of up to £3,000.

Key considerations

- If you don't already have an ISA, should you start one this tax year?
- If you have used your ISA allowance, can excess savings be put into a spouse or civil partner's ISA?
- Should you use your entire tax-free investment allowance?

PENSION CONTRIBUTIONS

Making the most of the annual pensions allowance is a particularly attractive option for higher earners.

Personal tax relief applies on pension contributions, although this may be restricted by the annual allowance or net relevant earnings.

The annual allowance is £40,000 for those with an adjusted annual income from all sources, including pension contributions under £150,000 or threshold income of £110,000 or less.

If these thresholds are exceeded, the annual allowance is tapered to a minimum annual allowance of £10,000, usually for those with total income plus employer pension contributions of £210,000 or more.

Provided you had a pension fund in any of the previous three tax years, it is possible to carry forward any unused allowances for those years.

If your total pension savings exceed the lifetime allowance of £1.055 million in 2019/20, you may be liable to tax when you draw benefits.

Key considerations

Consider making the most of 20% tax relief on pension contributions, this may be withdrawn soon.

If you are over 55, consider the potentially serious tax implications before accessing your pension early – and always seek advice before doing this.

- Do you have unused allowances from previous tax years which expires soon and may be utilised?
- Have you reviewed your pension contributions?
- Should you pay more into your pension?
- Are you aware of the potential inheritance tax benefits of maximising your pension fund?
- Review your letter of instruction to the trustees of your pension fund.

INHERITANCE TAX

Inheritance tax is usually due at 40% on the portion of an estate that exceeds £325,000.

An extra tax-free threshold of £150,000 – known as the residence nil-rate band – is available in certain conditions, including leaving the family home, or share of it, to children or grandchildren.

The residence nil-rate band gives a total tax-free threshold of £475,000 for individuals – or £950,000 for married couples or civil partners. However, a taper reduces this threshold on estates exceeding £2m.

The percentage of any unused nil-rate band from the first death may be transferred to the surviving spouse or civil partner, allowing up to double the nil-rate band applicable at the date of the second death.

Gifts or transfers made within seven years of death are also added back into the estate.

These are liable to inheritance tax, but may be subject to some exemptions as well as a tapered reduction for inheritance tax on transfers made between three and seven years.

Key considerations

- Do you have an up-to-date will that reflects your wishes and are you happy with its executors?
- Are you taking advantage of exemptions, such as the annual £3,000 expemption, gifts from income, and gifts on marriage or civil partnership?
- Do you have surplus assets that you can give away and thus potentially reduce the value of your estate that is chargeable to inheritance tax?
- Should you consider altering the spread of your investment portfolio into more inheritance tax-efficient products?

CAPITAL GAINS TAX

The capital gains annual allowance for 2019/20 is £12,000, or £6,000 for trusts.

Married couples and civil partners have a £12,000 exemption each, with gains above this usually taxed at a rate depending on income and the type of asset.

Where taxable income is less than the basic-rate limit of £37,501, the capital gains tax rate for gains up to the remaining basic-rate band allowance is 10%.

After this it rises to 20%, while the standard rate applicable to a trust is 20%.

Gains from the sale of residential properties, which are not your main residence, and carried interest are taxed at rates of 18% in the basic-rate band and 28% in the higher or additional-rate bands.

The rate usually applicable to disposals of residential properties by trustees is 28%.

Key considerations

- Have you used your £12,000 annual exemption?
- What can be saved by maximising tax-free exemptions available to spouses or civil partners?
- To utilise the spouse annual allowance, should an asset be put into joint names before being sold?
- Do you have depreciating assets that can be used to reduce your gains by creating a capital loss?
- If a negligible value claim can be made on any shares you hold, they do not need to be sold to create a capital loss to offset against any gains
- If tax is owed, can you defer or rollover the gain?
- If you are letting out a former home, what tax would be due if you sell it after 5 April 2020?
- Is your main residence election a property with the largest gain?
- Consider disposing of property or assets affected by changes to final-period exemption, letting relief and a new payment window before 5 April 2020.

ENTREPRENEURS' RELIEF

Entrepreneurs' relief reduces the rate of capital gains tax due on disposals of certain business assets from 20% to 10% – up to a lifetime limit of £10 million in gains – giving a potential tax saving of up to £1m.

Finance Bill 2018/19 outlined changes to this relief, reducing the number of shareholders entitled to submit a claim and made it even more complex to determine who can claim this valuable relief.

In addition to existing qualifying conditions, disposals of shares only qualify for entrepreneurs' relief where shares also entitle the shareholder to at least 5% of the company's distributable reserves and at least 5% of the company's assets available to equity shareholders on a winding up.

An alternative test exists where, if the whole ordinary share capital of the company is disposed of, the individual is beneficially entitled to at least 5% of the proceeds. Shares acquired under the enterprise management incentive scheme are not affected.

In 2019/20, the required holding period where qualifying conditions for the relief needs to be met is 24 months for all disposals.

At the same time, individuals can elect to crystallise a capital gain at the time of a genuine commercial share issue in which they are diluted below 5%, so that their entitlement to the relief is preserved.

A second election can then be made to ensure that the gain will not be taxed until there is an actual disposal of their shares.

NON-DOMICILE TAXATION

A non-dom is a UK resident whose permanent home, or domicile, is outside of the UK.

Someone may have more than one tax residence but can only have one domicile at any given time.

Domicile is very difficult to change and is significant because it determines your liability to income tax, capital gains tax and inheritance tax in the UK.

As a non-dom taxpayer, you can choose to be taxed on either the arising basis or the remittance basis.

Under the arising basis, you are taxed as any other UK-domiciled and resident taxpayer would be – on your worldwide income and gains.

Under the remittance basis, you are only taxed on your UK earnings and gains.

Any income or gains arising outside of the UK is not taxed unless you choose to bring, or enjoy the use of, that money in the UK.

New deemed-domicile rules have applied since 6 April 2017 to limit the time that these beneficial rules can be used.

Non-doms will be deemed UK-domiciled for income tax, capital gains tax and inheritance tax purposes if they've been a UK resident for at least 15 out of the past 20 tax years before the start of 2019/20.

If you become deemed-domiciled moving forward, you will no longer be able to claim the remittance basis and will be assessed on your worldwide income and gains on the arising basis.

You will also potentially be liable to inheritance tax on worldwide assets.

TAX CREDITS

Lower earners may be eligible to claim tax credits or universal credit. Existing claimants will move to universal credit by the end of December 2023.

The level of your benefit entitlement will involve determining three figures:

- your maximum benefit
- your annual income
- the applicable earnings threshold.

HMRC looks at several elements to see if you qualify for tax credits, before adding them up to calculate your maximum entitlement. From there, HMRC takes away a 'reduction due to income'.

Annual income includes income from all sources, including notional income, from which certain deductions can then be made, such as gross pension contributions.

Some types of income are disregarded for the purposes of calculating your annual income, so it is possible to receive the maximum benefit even if you have some form of income.

The threshold is the maximum amount of income you may earn and still receive the maximum benefit.

If your income is above this figure, a percentage of the excess is deducted from the maximum benefit in calculating your award.

Key considerations

Check to see if you qualify for these benefits as they can sometimes be payable even to people with what might seem to be fairly high income levels.

CORPORATION TAX

All companies making profits in the UK pay the main rate of corporation tax at 19% in 2019/20.

On one hand, a promise to reduce the main rate of corporation tax from 19% to 17% from 1 April 2020 has been legislated for.

On the other hand, the Government has pledged to shelve this planned increase to keep the main rate of corporation tax at 19% for 2020/21.

The Government, however, faces a race against time to get that written into statute before 6 April 2020.

Companies need to keep accounting records and prepare company tax returns.

Payment is due nine months and one day after the company's accounting period, while company tax returns are usually due 12 months after the company's accounting period.

Key considerations

A very important tax-reduction strategy is to bring qualifying capital expenditure forward to use the 100% annual investment allowance.

The allowance for all qualifying expenditure is £1 million until 31 December 2020, although transitional rules may apply for chargeable periods spanning these dates.

In such cases, the timing of the purchase will be critical in ensuring the maximum allowance can be claimed.

Taxable profits are typically reduced by employers making pension contributions, while self-invested personal pensions are popular with many company owner-directors.

This can be a very tax-efficient strategy for both the company and the individual.

BUSINESS DEDUCTIONS

When you're working out your business's taxable profit, you can deduct any costs that were incurred wholly and exclusively for the purposes of the trade.

These could include the cost of travel, staff salaries, pension contributions, bills for your business premises, advertising and marketing, and training.

Directors' bonuses can be claimed as a deductible cost, as long as they are paid within nine months of the company year-end and the entitlement to the bonus is established before the accounting date.

You may also be able to claim capital allowances for things you buy to keep in your business, such as equipment, machinery and business vehicles.

Key considerations

- If you are due a director's bonus, have you claimed it as a deductible cost?
- Have you paid any employer pension contributions? These must be paid before the year-end to get tax relief in the accounting period.
- Are you paying a member of your family a salary? Salaries can be paid to family members as long as they are justifiable and at commercial rates.
- Have you considered tax-efficient ways of extracting profits, such as dividends, pension contributions and benefits-in-kind?

VAT

In 2019, around 2.7 million businesses in the UK were registered for VAT, which is usually charged at 20% on the sale of goods and services.

Most VAT-registered firms need to keep digital records of these sales, and file monthly or quarterly VAT returns using digital software under the Making Tax Digital (MTD) regime.

Unless HMRC has agreed your business is exempt from MTD for VAT, non-compliance penalties will kick in for accounting periods starting in April 2020.

Additionally from April 2020, HMRC will be moving to a points-based penalties system to encourage good taxpayer behaviour.

Your business must register for VAT when your taxable turnover has gone over £85,000 in the previous 12 months or you expect turnover to go over this threshold in the next 30 days.

Your business's VAT taxable turnover is the total of everything sold that is not exempt.

You can register voluntarily, while you can also voluntarily deregister for VAT if your taxable turnover is less than £83,000.

Schemes exist to simplify accounting for VAT, including the cash accounting scheme, annual accounting scheme, and the flat-rate scheme.

Key considerations

- Could your business use one of the simplified accounting schemes?
- Does your business need to be VAT-registered?
- Are you entitled to claim VAT bad debt relief?
- Are you accounting for VAT correctly on the fuel used for private motoring? Should you be accounting for the appropriate scale charge?

PENALTIES

Fines are in place for non-compliance with income tax, corporation tax, VAT, and inheritance tax.

Miss the deadline for filing your tax return through self-assessment at midnight on 31 January 2020 and you will be fined £100 the very next day.

Leave it another three months and a daily penalty of £10 applies, up to a maximum of £900.

If you still have not filed your return you can expect another £300 fine or a fine equal to 5% of the tax still due, whichever is the higher.

There are separate penalties for late payment of tax owed.

If you have not paid your tax within 30 days of the deadline, a 5% penalty of the tax still owed to HMRC is applied.

This process is repeated for amounts still owed after six months and 12 months.

On top of the penalties, HMRC will charge you interest on any tax owing and on the penalties and charges incurred. The current rate applied is 3.25%.

New businesses also face being fined for not notifying HMRC that they have commenced trading.

If the business is a company then it will also need to ensure it submits its annual accounts ahead of their deadline to avoid incurring a penalty.

Penalties vary from £150 for a private company filing its annual accounts one month late to £7,500 for a public company that files its accounts more than six months late.

Get in touch for personal tax planning.

UPCOMING CHANGES

The following rules, rates and allowances are scheduled to change in 2020/21.

This information was collated after the outcome of the general election in December 2019 and is based on the Government's manifesto pledges. All information is subject to change in the Budget on 11 March 2020.

Personal allowance & income tax thresholds

The personal allowance for 2020/21 should remain at £12,500. This applies throughout the UK.

In England, Northern Ireland and Wales, the basic-rate threshold should also remain at £37,500. Taxpayers who are entitled to a full personal allowance are liable to higher-rate tax once their income exceeds £50,000.

Income tax bands and rates in Scotland differ and may change when the Scottish Budget is announced.

National insurance contributions rates and bands are also set to remain unchanged from 2019/20.

Pension allowances

The lifetime allowance should rise to £1.075m for 2020/21, in line with the Consumer Prices Index's rate of inflation from September 2019 and subject to rounding up. The exact figure will be announced in the Budget.

Capital gains tax

Three significant changes to capital gains tax are due to take effect from 6 April 2020, subject to legislation.

Letting relief will potentially only be available to those who shared occupation of their house with a tenant.

If you sell a property that was once your main residence, in most cases only the final nine months of ownership will qualify for private residence relief. The **final-period exemption** is currently 18 months.

Finally, anyone making a taxable gain from the sale of a UK residential property will have a **30-day window** to submit a residential property capital gains tax return and pay any capital gains tax owed.

Inheritance tax

The **residence nil-rate band** is legislated to rise from £150,000 to £175,000.

National living wage

The national living wage hourly rate for over-25s will increase from £8.21 to £8.72.

VAT

Reverse charge VAT for construction services applies to transactions between VAT-registered businesses, which are both registered under the construction industry scheme and where the customer intends to make an ongoing supply of construction services.

Where the reverse charge will apply, it is the recipient of the supply that will be responsible for handling and paying the VAT element to HMRC from 1 October 2020.

HMRC tax investigations aren't just something you hear about.

Last year HMRC collected £34.1 billion from Tax Investigations and Enquiries

Contact us today for more information on how to join our service

Our Tax Investigation Service provides you with support when you need it most.

Treviot House, 186-192 High Road, Ilford, IG1 1LR

020 8477 0000

www.davisgrant.co.uk/pfp

Treviot House
186-192 High Road
Ilford
Essex
IG1 1LR

www.davisgrant.co.uk | 020 8477 0000 | info@davisgrant.co.uk

Year-End Tax Guide **2019/20**