CATHERINE A. WILLIAMS LTD.
CHARTERED ACCOUNTANT

Spring 2019 —Newsletter and 2019/20 Tax Yearend Guide

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As we approach the end of another tax year, It's a good time to make sure your finances and tax position are structured as efficiently as possible. There are many steps which can be taken now to minimise your tax liability and optimise choices for your future.
We are a two director firm of Chartered Accountants in the heart of the Brecon Beacons offering accountancy and tax services to locals as well as those further afield. Established back in 2013 we celebrated our 15th anniversary in the Autumn and now have 6 members of staff. Being Chartered Accountants we work to high standards but our ethos is always to offer good old fashioned service which is excellent value for money. We are large enough to cope but small enough to care. We specialise in practical accountancy support as well as all aspects of taxation and business advice. Please speak to us to discuss how we can help

MAKING TAX DIGITAL

There are BIG changes ahead with Making Tax Digital

Making Tax Digital (MTD) is the biggest change ever to administration of tax and is being implemented now on a 'Tax by Tax' basis. VAT being the first of the taxes due for implementation from 1st April 2019.
It means that businesses must keep digital records of transactions and submit that information to HMRC either directly via accounting software or via an Application Programme Interface (API) filer submission software. For most businesses it will no longer be possible to submit VAT returns using the nine boxes and manually filling them in on the HMRC website using your government gateway account. It is important to know when to file your first VAT return under MTD, see below;

VAT Stagger Group	Digital Records From	First MTD Qtr	Deadline for first MTD VAT return
Mar/Jun/Sep/Dec	1st Apr2019	Apr/May/Jun 2019	7th Aug 2019
Apr/Jul/Oct/Jan	1st May 2019	May/Jun/Jul 2019	7th Sep 2019
May/Aug/Nov/Feb	1st Jun 2019	Jun/Jul/Aug 2019	7th Oct 2019

You must first file your last VAT return prior to the MTD rules using your current method, then once your direct debit for VAT has gone out for that quarter you opt into MTD by either us as agents linking you in or via your own government gateway account.
The second tax to which MTD will apply is income tax. Self employed businesses, partnerships, trusts and those receiving property income will need to report under MTD.
****BREAKING NEWS**** Income Tax and Corporation Tax MTD deferred. MTD was supposed to be extended to income tax and Corporation Tax from April 2020, but Phillip Hammond in the spring statement on the 13th March 2019 announced it will be deferred as yet to an unknown date. The current consultation document suggests that all businesses with a turnover of £10,000 or more will need to comply with the new rules. Initially there will be a three line reporting requirement so only Turnover, Expenses and Profit will be reported but full digital records, split into cost categories, will still need to be kept. Property businesses will only need to report totals for all properties but will similarly need to maintain full detailed digital records for each property. Income tax will be reported via four quarterly returns followed by a final annual submission. The deadline for that final submission will remain as the 31st January following the end of the tax year.

Things you need to know about Making Tax Digital

- Spreadsheets comply with digital records but will need API filer software to make submissions
- Sales takings for retail businesses must be split out within your records on a daily basis
- You can use an agent like us to write up your digital records of the transactions on a quarterly basis
- You can't use paper record totals and enter only the totals in MTD compliant software
- Scanned copies of the actual receipts and purchase invoices aren't mandatory, paper copies are fine to be kept for business records
- Technically supplier invoices must be listed individually not just on a statement total basis
- HMRC are not going to provide Making Tax Digital software, the only options are to use API filer or accounting software
- There will be a 12 months soft landing prior to HMRC issuing penalties
- Businesses on VAT schemes e.g partial exemption or retail schemes can use journal adjustments within the software or spreadsheet
- If, for example, sales records are keep in practice software with the other accounting transactions kept on a different software there needs to be a digital link between the two. A digital link could be exporting and importing via CSV file, direct transfer or linked spreadsheet cells

***DON'T PANIC there are lots of different ways we can help*:**

* Implementation of new computerised software by moving you over from manual records
* Use your existing manual records to reconstruct digitally compliant records
* Provide a bookkeeping service using digitally compliant cloud based software
* Provide a bookkeeping service using our in house bookkeeping software and filer submission option
* Export accounting records from your non MTD ready software, creating digital links and using the filer submission option
* Take your spreadsheet records and use them together with filer submission software

We work with a range of software partners including the following:

PROPERTY

There are considerable changes for residential property investors.

Mortgage Interest Restrictions

2017/18 saw the first year of the Mortgage Interest Restrictions, which are being phased in over 4 years. In 17/18 the restriction was on 25% of the Mortgage Interest, rising to 50% in 18/19. From this April 2019 the restriction will apply to 75% of the mortgage interest with the full 100% restriction applying from 20/21. What it means is that interest and finance costs are being restricted so they will only attract a maximum of 20% tax relief. The restriction applies to residential property and doesn't apply to commercial property or furnished holiday lettings.
The relief affects the presentation of an individuals taxable income with all finance costs (not just loan interest) no longer being an allowable expense when calculating your taxable rental profits, instead relief at 20% is given against the tax calculated. If you are currently a basic rate taxpayer, you may find that you become a higher rate taxpayer, once the finance costs are disallowed in your rental accounts.

Changes to Principle Private Residence (PPR) Relief rules

From April 2020, the private residence relief period of exemption changes with the final period of exemption reducing from 18 to only 9 months. This allows the final period of ownership of a second property previously a main residence to be covered by PPR even if that second property is no longer the only or main residence during this last exemption period.

Letting Relief

Letting relief is also due to disappear from April 2020. This is a lucrative capital gains tax relief on property which has been owned as Principle Private Residence at some stage and then let out as a residential property. Up to a maximum of £40k of capital gains relief is currently available per owner. Going forward, this relief will only apply where the owner is in shared occupancy with a tenant.

Capital Gains Tax Payment Point

The Capital Gains tax payment window is also changing for residential property. Early reporting and payment of capital gains tax on the disposal of residential property is coming in from April 2020. When a ' Buy to Let' property is sold, currently capital gains tax is payable in the January following the tax year of sale, from April 2020 the new rules will mean that BOTH the capital gain and the tax payment will need to be made HMRC within 30 days of the completion date. Estimates to compute the gains can be used and finalised under Self Assessment

Rent A Room Allowance

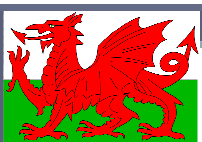
Rent A Room Allowance is an automatic relief so does not need to be claimed for renting out furnished accommodation in your own home up to £7500 per tax year. From April 2019, a new condition will mean that the lessor must be living in the property at the same time as their tenant for at least some of the letting period. So letting out the property while absent or on holiday will no longer qualify.

Personal Pensions can be really useful

(*note doesn't apply to occupational pension schemes eg NHS or teachers etc*)

- Pensions can hold commercial property if using a Self Invested Personal Pension
- Most pensions accept employer contributions so they can be used as a profit extraction method from a family limited company
- Tax relief is available when you pay into the pension fund at 20% for basic rate tax payers and 40% for high rate tax payers subject to the annual allowance
- The pension plan is accessible from the age of 55 and when you retire you can take out 25% of the fund as a tax free lump sum
- You no longer have to take out an annuity instead you can drawn down funds as and when, or leave the pension pot completely untouched
- Your family may inherit any left over personal pension pot usually free from inheritance tax.
- The pension fund will NOT be taxed in the hands of the beneficiary when they take it out of the pension fund should you die before the age of 75.
- If you die after the age of 75 the pension fund remaining will be taxed on the beneficiaries at their highest tax rate

SCOTISH & WELSH TAXES



Different Taxes around the UK

⇒ New Welsh tax code suffix of 'C'. The £12500 personal allowance from April 2019 for 19/20 will be a 1250L tax code for individuals living in England and C1250L for those living in Wales. Set by where you _live not where you work_

⇒ If an individual moves to or from Wales in the course of a tax year they will be a Welsh taxpayer if they live in Wales for at least as much of the tax year as they live in any other country in the UK. The new rate will be backdated to the start of the tax year in which the move occurred.

⇒ Remind Employees to ensure their home address is correct on the payroll system. Its common for people to have paperwork addressed to their parents property especially if they are renting, but that may lead to the incorrect amount of tax being paid

⇒ Welsh income tax applies to non-savings, non-dividend income only (earnings, pension and most other taxable income). Welsh taxpayers will pay the same tax as the rest of the UK on savings and dividends income as the powers to alter those taxes are not devolved.

⇒ There is currently no difference between the rates and allowances for England and Wales, but Scotland brought in different allowances last year.
Please Contact us if you need more information

⇒ High Earners living in Scotland are considerably affected. On a Salary of £50k a Scottish Tax payer will pay an additional £1,544 in tax compared to their English counterpart on the same salary

CHILDREN- Tax Planning for the under 18's

- Children have their own personal allowance and capital gains tax allowances
- If you invest funds for your children and the interest earned on those savings is more than £100 per annum then that income will be taxed on you
- Children can hold a pension fund. £2800 net (ie £3600 gross) can be paid into the fund even if they have no income. A useful option for grandparents to pay for their future
- Once children turn 16, a loophole in ISA laws means that they are eligible for two cash ISA allowances - both the Junior ISA Allowance and the adult ISA allowance. It means that in 19/20 a total of £24,368 can be paid into their respective ISA's.
- There are some other limited ways income can be transferred to children tax efficiently such as:

⇒ National Savings Children's Bonds which are tax free.

⇒ Friendly Societies offer 10 year mini mum, tax exempt savings plans for children for up to £25 per month.

- It is possible for children to have a job from the age of 13, but there are restrictions which apply to working hours. Care if employing in a family business as payment must be made for actual work and at a commercial rate
- Tax free child care - The new scheme is available to families where both parents are working (on an employed or self employed basis) for at least 16 hours a week and meet a minimum income level (generally £125 a week) with each earning less than £100,000 a year
- Parents need to register with the government and open an online account. The government 'top up' payments into this account are at a rate of 20p for every 80p that families pay in. The scheme is limited to £10,000 per child per year. The government's contribution is therefore a maximum of £2,000 per child.

Allowances—Tax and National Insurance

PERSONAL ALLOWANCES— 2019/20

Income Tax Personal Allowances

* An individuals personal tax allowance for 19/20 increases to £12,500 for the year (2018/19: £11,850). The normal tax code is now 1250L (see Page 2)
* Income tax is at 20% on income over £12,500 up to the higher rate threshold of £50,000 (2018/19:£46350) then the income tax rate rises to 40%. Income over the additional rate band of £150,000 is taxed at 45%
* When total income reaches £100,000 the personal allowance is lost at a rate of £1 for every £2 above that limit.
* TIP—Transferring Allowances—It is possible to transfer personal allowances between spouses. Marriage Allowance of £1250 for 19/20 can be transferred between spouses but only where neither spouse pays tax at higher rate. Worth up to £250 as a tax saving
* Married Couples Allowance is more beneficial than the Marriage Allowance as it can reduce your tax bill by up to £869.50 but is only available if one spouse was born before 6th April 1935

National Insurance

* For 2019/20 National Insurance is payable on earnings over £166 per week or £8632 per annum
* National Insurance Limits are per job. With two part time jobs rather than one main job, it may mean insufficient national insurance is paid towards your state pension
* Remember National Insurance is not an annual tax unlike income tax so is applied per pay period. If you pay national insurance in one pay period, but your income drops below the threshold in the following pay period you won't get a National Insurance refund
* Class 1 National Insurance is payable at 12% on employed earnings over £8632 per year and class 4 National Insurance is payable for the self-employed over £8632 per annum at 9%. At the higher rate threshold of £50,000 National Insurance payments drop to 2% for both employees and the self-employed
* TIP—If you have both employment and self employment income you may pay too much National Insurance. The refund is not automatic.
* Class 2 National Insurance which is the flat rate allowance for the self employed was due to be abolished from April 2018 but this has been postponed indefinitely. The Class 2 National Insurance rate raises to £156 per annum for 2019/20 (2018/19: £153.40)
* Voluntary Class 3 National Insurance Contributions rises to £15 per week or £780 per annum

Capital Gains Tax

* The Capital Gains Tax Allowance increases to £12,000 for 19/20 (£11,700 for 18/19)
* Capital Gains Tax is chargeable at 18% on residential property gains up to the higher rate threshold and 28% on the remaining gains over that limit. Other gains are chargeable at 10% and 20% respectively unless covered by other applicable rates such as entrepreneurs relief

Pinch Points Tax Thresholds

Pinch Points appear usually where there is a change in the thresholds. If you have income around the pinch points careful planning can prevent you moving into a higher rate tax bracket or losing allowances

Basic Rate to Higher Rate (£50,000 for 2019/20) - main personal tax rate rises from 20% to 40% . The Savings Allowance reduces from £1000 to £500 and there is the loss of the opportunity to transfer the marriage allowance

Child Benefit Claw Back (Between £50,000 and £60,000 for 2019/20) - Child benefit is completely clawed back where income exceeds £60,000. It is a per individual not per household threshold

Withdrawal of Personal Allowance - Income between £100,000 and up to £125,000 (for 2019/20) sees the claw back of the personal allowance. It means any income falling into that tax bracket has an effective tax rate of 60%

Additional Rate Tax— the main rate of personal tax rises from 40% to 45% for those with income over £150,000. It is also the level where the pension annual allowance of £40,000 per year is automatically restricted due to high earnings

Tax Planning Ideas:

* Gift Aid donations and pension contributions can uplift the thresholds. There is very limited tax planning opportunity once you pass the end of the tax yearend but one *post yearend* planning point is that you can elect for Gift Aid donations to be treated as being paid in the preceding year, so long as they are made before either the submission of your tax return or the 31st January following the end of the tax year.
* Income that can easily be moved from year to year by delaying payment of bonus or dividends from your own company, encashments of life assurance bonds or the withdrawal of taxable income from pension schemes in 'drawdown'

NO CHANGES IN KEY RATES	2019/20	2018/19
Dividend band taxed at 0%.	2000	2000
Tax rate on Dividends falling into basic rate Band	7.5%	7.5%
Tax rate on Dividends falling into higher rate Band	32.5%	32.5%
Corporation Tax Rates **but from 2020 due to reduce to 17%**	19%	19%
VAT registration threshold currently frozen until March 2022	£85,000	£85,000
Annual Employment Allowance for relief against employers National Insurance	£3000	£3000
Entrepreneurs Relief - Rate on capital gains tax on gains eligible for relief	10%	10%

BUSINESS

Business Planning Points

* Benefit in Kind Tax (BIK) rules on Electric cars change in 2020 down to 2% of list price. Going forward having an Electric Company Car could be more tax efficient than mileage
* New Business Structures and Buildings Allowance gives a 2% flat rate relief over 50 years for building work on newly constructed non-residential buildings and structures eg Farm Shed, Warehouse units etc
* The Annual Investment Allowance (AIA) which gives 100% Capital Allowances tax relief for fixed asset purchases has been increased from £250,000 to £1m commencing January 2019 for a limited 2 year period. Useful for large Fleet businesses, manufacturers making investments and large Farming businesses

Reminder of Existing Reliefs for businesses

* **Research and Development Relief**— Companies who carry out research and development costs get 230% enhanced relief for those costs against corporation tax. So if £100 is spent on research £230 of costs are set against profit for calculating Corporation Tax
* **Entrepreneurs Relief**— is available when selling business assets, shares in a business and assets associated with the business , the effect is that capital gains tax is reduced from maximum 20% to 10% for qualifying gains.
* **Business Asset Rollover Relief**—Relevant to trading companies who sell any asset or goodwill to acquire another asset. Business Asset Rollover Relief lets you defer any Capital Gains Tax due when you dispose of certain assets and you use the whole amount you receive from the disposal of the old assets to acquire new assets, the whole of your gain will be deferred by deducting it from the cost of the new assets.
* **Patent Box** - A claim can be made by a company earning income from exploiting patented inventions. The Corporation tax rate is reduced to 10% for those profits
* **Business Rates Relief** - Check your rates bill to ensure you are in receipts of reliefs that you might be entitled to including small business rates relief and high street rates relief. Also regularly check property rateable values are correct

KEY DATES in the TAX YEAR

1st April 2019—Start of Making Tax Digital for VAT and increase in minimum wage rates
5th April 2019—End of the tax year, last day to pay into pensions, make ISA contributions or make disposal of assets to use the 18/19 Capital Gains Tax allowance
6th April 2019—Start of the new 2019/20 tax year
1st May 2019—Start of £10 a day fines for non or late submission of the 17/18 tax return
31st May 2019—Deadline for P60's to be given to employees
6th July 2019—P11d Benefit in Kind forms to be given to employees
31st July 2019—Deadline for the second payment on account
5th October 2019—Deadline for notifying HMRC of requirement to go into the tax return system for 18/19 tax year
31st October 2019—Deadline for paper returns under Self Assessment
31st December 2019—online filing deadline for submitting 2018/19 Self Assessment return if you require HMRC to collect any underpaid tax for 2018/19 by making an adjustment to your 2020/21 tax code.
31st January 2020—Deadline for submitting 18/19 tax return
1st February 2020 - £100 fine if 18/19 tax return not submitted
3rd March 2020 - 5% payment penalty is added on any 2018/19 outstanding tax which remains unpaid and was due by 31 January 2020

INHERITANCE TAX

- Inheritance tax (IHT) is payable at 40% on death on an individuals chargeable assets over £325,000.
- People in certain 'risky' roles are exempt from paying inheritance tax if they die in active service. Included in this are armed forces personnel, police, firefighters and paramedics, plus humanitarian aid workers.
- Where 10% or more of the estate is left to charity IHT reduces to 36% on the whole of the remaining chargeable estate
- The '**Residence Nil Rate Band**' (RNRB) is an additional inheritance tax relief which increases over the next two years as follows: 2019/20 - £150,000 and 2020/21 - £175,000
- The RNRB is only available where the family home is transferred to direct blood descendants and the total value of the estate is less than £2m.
- A married couple who on the first death leave all the assets to the surviving spouse could potentially leave a total of £950,000 free of inheritance tax to the next generation

TIPs—for mitigating inheritance tax

* **A single annual lifetime gift of up to £3k is IHT free**
* **Gifts of up to £250 can be given IHT free to any number of people in each tax year**
* **Parents can give £5,000 to each of their children as a wedding gift IHT free, Grandparents can give £2,500**
* **Gifts of any size to charities or political parties, are also tax free**
* **Consider investments in business assets, AIM stock market shares or Enterprise Investment Schemes (EIS schemes) on which Business Property relief can be claimed against inheritance tax after the investments are held for 2 years**
* **Funds within a personal pension wrapper should be outside the estate for inheritance tax.**
* **Consider use of trusts**
* **Don't forget life insurance to cover the costs of a inheritance tax liability. Ensure the policy is written in trust so the proceeds are outside your estate**

NEWS
Coming soon is our a new website which will include a client portal for secure collection of documents and information

STATE PENSION

1) If you are yet to reach State Pension Age, under the new rules you will need to have accrued 35 complete years of National Insurance Contributions (NIC) to receive the FULL state pension and at least 10 complete years to get ANY state pension.
2) Use Gov.UK to - Check your State Pension Age and State Pension Forecast
3) If you have a gap in your state pension forecast it is possible to make additional class 3 National Insurance contributions but usually only going back a maximum of 6 years
4) Remember Residential Letting of property is not self employment income for Class 2 National Insurance contributions and you will need to make up any gaps in with Class 3 contributions

EMPLOYEES

- Minimum Wage rates rises from 1st April 2019. Watch as this is not in line with the end of the tax year on the 5th April 2019.
- It is a rise of 4.9%

Minimum Wage Rates	*Per Hour 1st Apr 2019—£*	*Current per Hour - £*
25 years and Over	8.21	7.83
21 to 24	7.70	7.38
18 to 20	6.15	5.90
Under 18	4.35	4.20
Apprentice Rate	3.90	3.70

- National Living Wages is a voluntary benchmark level for those over 25 years. It is set at £9.00 (or £10.55 for those living in London)
- Sick pay rises to £94.25 per week from April 2019
- Statutory Maternity Pay is paid for 39 weeks at 90% of your average earnings for first 6 weeks then the lower of *£145.18 or 90%* of earnings for the next 33 weeks
- Auto Enrolment— minimum pension rate increase from the 5th April 2019 to 3% for employers and 5% for eligible or opted in employees
- Loans to Staff - Employers can lend up to **£10k** to staff interest free with out them being assessed as receiving a benefit in kind
- Reliefs—Claim employee reliefs—If a relief has not been claimed for business mileage, professional subscriptions and pension contributions tax payers have four years from the end of the tax year to make a claim otherwise they will be time barred.
- Tax Codes—Check your tax code is correct especially if you have more than one employment in the year to ensure you are being taxed correctly
- Mileage—Business mileage up to 10,000 miles can be reimbursed at the HMRC rate of 45p per mile, over 10,000 the rate drops to 25p per mile. If you have two unconnected employments in a tax year then you are entitled to 2 lots of 10,000. If your employer doesn't pay the full rate, you can claim tax relief on the shortfall, either on your tax return or on form P87. Four year window to claim
- Uniform Relief - A tax claim can be made for cleaning or repairing a uniform provided by reason of employment. There are set rates per HMRC.

Checklist—things to do before 5th April 2019

	TICK
* Use your ISA Allowance	
* Check if you can contribute more to a pension including unused allowances brought forward	
* Look at the opportunity to realise gains and use the Capital Gains Tax annual allowance	
* Think about making life time gifts for inheritance tax	
* Make Gift Aided Charitable contributions	
* Make or update your Will	
* Transfer income producing assets between spouses to use allowances	
* Review interest rates on savings and borrowings	
* Consider making EIS or VCT investments for income tax relief and deferred gains	

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