



End of the 2018/19 Tax Year

The current tax year is drawing to a close and taking action now may give you the opportunity to take advantage of any remaining reliefs, allowances and exemptions.

We have set out in this reminder a few of the areas you may wish to consider and also highlighted a few of the upcoming changes which may affect you. Not all of the items included in here may be applicable to you but should you wish to discuss any of the points in this publication further, please do not hesitate to contact a member of our dedicated tax team.

Income Tax

Personal Allowances and Income Tax Rate Bands

The personal allowance for the 2018/19 tax year is £11,850 which is available to all individuals whose income is less than £100,000 in the tax year. The allowance cannot be carried forward so it is important to make use of this where possible.

If you are a basic rate taxpayer and your spouse does not pay any tax it should be possible to transfer an element of the personal allowance.

If your income is in excess of £100,000, the personal allowance is reduced by £1 for every £2 of income received until the personal allowance is reduced to nil once income exceeds £123,700. The impact of this is punitive with an effective 60% tax rate for income between £100,000 and £123,700.

Tax is charged at the basic rate on the next £34,500 above the personal allowance, then at the higher rate on income up to £150,000 with the additional rates of tax charged on any income over £150,000.

Potential Actions

1. Consider making use of lower rate tax bands, and review tax implications of transferring income producing assets to your spouse or children;
2. If your spouse does not use all of their personal allowance, consider electing to transfer an element;
3. If your income is around the £100k mark, consider making pension contributions or gift aid donations to regain your personal allowance or utilising an ISA to reduce your taxable income.

Married Couples

Income from jointly held assets is generally shared equally for tax purposes. This applies even where the asset is owned in unequal shares unless an election is made to split the income in proportion to the ownership of the asset.

Married couples should look to utilise each partner's personal reliefs as well as their basic rate tax bands. It may therefore be beneficial to consider gifts of income producing assets (which must be outright and unconditional) to distribute income more evenly between spouses.

Potential Actions

1. If assets are held unequally between you and your spouse, consider making an election to ensure the income is taxed accordingly.
2. Consider making gifts of income producing assets if your spouse is taxed at a lower tax rate.

Dividend and Savings Nil Rate Bands

The first £2,000 of dividend income received in the tax year is taxed at 0%. Dividends received over and above the £2,000 tax free rate are subject to their own tax rate bands i.e. basic rate of 7.5%, higher rate of 32.5% and additional rate of 38.1%.

In addition, for basic rate tax payers there is a savings nil rate band of £1,000, meaning that the first £1,000 of savings income is taxed at 0%.

For higher rate taxpayers the savings nil rate band is £500, and for additional rate taxpayers it is withdrawn altogether.

The savings nil rate band is not transferable between spouses, so it is important to ensure that bank accounts are held to maximise the nil rate band.

Finally, if you have relatively modest non-savings income (e.g. salary or rental profits), then you may be entitled to receive the £5,000 starting rate for savings making this income tax free.

Potential Actions

1. Try and make use of the dividend nil rate band and basic rate band
2. Don't forget to make use of your spouse's Savings Nil Rate Band for example by electing to transfer savings held in your own name to your spouse.

Children's Allowances and the Child Benefit Charge

Children have their own personal allowances and tax bands and it may therefore be possible for tax savings to be achieved by the transfer of income producing assets to a child. However, if your child is under 18, then generally any income arising will remain taxable in the parent unless it amounts to no more than £100 per tax year. Junior ISAs are however excluded from this rule as are gifts to children over 18 or grandchildren.

For those with income over £50,000 or who are part of a couple where one of you earns over £50,000 then part of any Child Benefit claimed will be clawed back.



If your income is over £60,000 you may therefore be considered disclaiming Child Benefit to avoid a claw-back tax charge. However, if the claimant of Child Benefit is not themselves working then disclaiming will mean the year does not qualify for State Pension purposes. In this scenario you should therefore request the payment be stopped rather than disclaiming altogether.

Potential Actions

1. Consider topping up any Junior ISAs before the end of the tax year
2. Consider if it is possible to switch income from one spouse to another, such that both spouses income remains below the £50,000 threshold for claw back of Child Benefit

Property Income

There have been a number of recent tax changes targeting individuals with second properties such as the increase in Stamp Duty Land Tax, restriction on allowable expenses and an increase in Capital Gains Tax rates.

In addition, from 6th April 2017, a restriction was introduced in relation to the relief available for any finance costs associated with a residential property. Where it was previously possible to claim 100% tax relief on such costs this has now been restricted to relief at the basic rate of tax. Furthermore, the restriction has been phased in over four tax years so that in 2017/18 the restriction only applied to 25% of any finance costs, and in 2018/19 it applies to 50%.

The restriction does not apply to the renting of commercial properties, furnished holiday lets or to companies letting residential properties.

An allowance of up to £1,000 is available to offset against any rental income received as an alternative to claiming the actual expenses incurred in renting the property.

If you rent a room in your main residence, the first £7,500 in rental income is tax free due to "rent-a-room relief".

Potential Actions

1. If you have loans attached to rental properties, consider checking if restructuring is appropriate to maximise tax reliefs.
2. If you have Furnished Holiday Lets, check you are happy the appropriate conditions have been met for the year.

Gifts to Charity

Charitable donations made under the Gift Aid scheme can result in significant benefits for both the recipient charity and the donor. It is important to keep records of any charitable payments made on which you wish to claim relief.

A cash gift of £80 will generate a tax refund of £20 for the charity so they receive £100. In addition, as the donor, if you pay tax at the higher rate you will receive higher rate relief of £20 and if you are an additional rate taxpayer you will get relief of £25.

Care should be taken in claiming gift aid if you are a low earner as a tax charge can be created if you gift funds within your personal income tax allowance.

Finally, tax relief against 2018/19 income is possible for charitable donations made between 6 April 2019 and 31 January 2020 provided the payment is made before filing the 2018/19 tax return.

Potential Actions

1. Keep a record of any charitable donations made to ensure tax relief can be claimed.
2. Consider making additional donations in advance of the end of the tax year.

Pensions

If your income is likely to fall just over any of the thresholds, it may be worth considering methods of reducing your taxable income for the year by making contributions to a pension.

There are a number of benefits to making pension contributions that can depend upon the type of pension contributed to but they can either reduce your taxable income or extend your basic rate band allowing more income to be taxed at a lower rate.

Contributions of up to £3,600 gross (£2,880 net) can be made each year regardless of your level of earnings. This means if you make a contribution of £2,880 on behalf of your spouse for example, HMRC will 'top up' the contribution by £720 making the total contribution to the pension £3,600. In addition, contributions up to your level of earnings for a tax year can be made up to the lower of your earnings for the year or the annual allowance (currently £40,000).

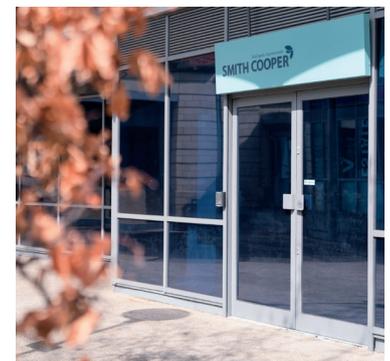
In addition, if no contributions have been made for the previous 3 tax years, or there is unused annual allowances from these years, these can be carried forward and used in the current year so that the maximum contribution to be made would be the lower of your earnings and £150,000.

However, if your annual income exceeds £150,000 then this annual allowance is tapered by £1 for every £2 of income received until your earnings exceed £210,000 then the annual allowance available is restricted to £10,000.

Restrictions are also in place so that the annual allowance is restricted to £4,000 if you have flexibly accessed your pension savings.

Potential Actions

1. Consider utilising any unused annual allowance for previous years by making a pension contribution in advance of 5 April;
2. Consider making contributions on behalf of lower earning family members.



Capital Gains Tax

The first £11,700 of gains made in 2018/19 are generally free of CGT. Each individual has their own annual exemption and it cannot be carried forward so will be lost if not used.

In addition, transferring assets to lower earning spouses can create an opportunity to utilise their basic rate band as CGT is charged at 10% rather than 20% (18% and 28% for residential property).

If you are considering disposing of an asset you may wish to consider delaying the disposal until after 6 April 2019 if you have already used this year's annual exemption. This will also have a cash flow advantage as the tax will not be due for payment until 31 January 2021 rather than 31 January 2020.

Main Residence

One of the most generous CGT reliefs is Principle Private Residence (PPR) relief. Generally, this means if you sell your main residence and have lived in it throughout your period of ownership it will be exempt from CGT.

When selling a property which has at some point been your main residence, the final 18 months of ownership are deemed to be CGT exempt whether or not you lived there in that period. This is being reduced to 9 months for disposals on or after 6 April 2020.

Relief is also currently available to reduce the gain arising in any period in which you rented out a property which has been your main residence. From 6 April 2020, this relief will only be available if you were also living in the property at the time it was rented.

Potential Actions

1. Should you own more than one residence in which you live, consider making an election to treat one or the other as your main residence.
2. If you are considering selling a property which has been your main residence and subsequently let, consider the impact of the new rules and bringing forward any such sale prior to 6 April 2020.

Entrepreneurs' Relief

Where an asset is disposed of and the disposal qualifies for Entrepreneurs' Relief ("ER"), any gain will be taxed at 10%.

There are a number of conditions to be met but generally ER applies to:

- The sale of all or part of a trading business;
- The sale of shares in a qualifying company of which you are an officer/employee and where you hold more than 5% of the nominal share capital and voting rights. From 29 October 2018 this has been extended to also require a right to 5% of the distributable reserves.

The minimum qualifying holding period is currently 12 months but this is increasing to 2 years for disposals on or after 6 April 2019. There is a lifetime limit of £10m of disposals.



Investors Relief

Investors' relief provides a separate lifetime limit of £10m with a 10% rate of tax on qualifying investments.

Again, there are a number of important conditions to meet to obtain the relief:

- It can apply to disposals of shares in unquoted trading companies or the holding company of a trading group;
- The shares must be ordinary shares, subscribed for and fully paid in cash;
- The shares must be held for at least 3 years from 5 April 2016;
- There are restrictions on shareholders being employees or directors of the company;
- The shares must have been issued and subscribed for at arm's length.

Unlike ER there is no minimum qualifying percentage shareholding.

Potential Actions

1. Consider the qualifying conditions for ER and/or Investors Relief to ensure these are met in advance of any disposal
2. Ensure the increased qualifying holding period is taken into account on any disposals on or after 6 April 2019.

Tax Efficient Investments

It is possible to claim additional tax reliefs by acquiring tax efficient investments. These investments tend to be higher risk and may not therefore be suitable for all investors.

Enterprise Investment Scheme (EIS) allows income tax relief at 30% on new equity in qualifying companies of up to £1m in 2018/19. It can therefore reduce your income tax liability by up to £300,000. It is also possible to carry back the relief to the 2017/18 tax year.

If the shares are held for at least 3 years, then any gain made on the EIS shares are exempt from Capital Gains Tax. It is also possible to defer any other capital gains into the EIS investment such that the gain will become subject to tax on disposal of the EIS investment. To defer a gain it must have arisen up to 3 years before the EIS investment and up to 12 months after.

Seed EIS (SEIS) is like EIS but aimed at smaller companies. The maximum amount that can be invested in SEIS in one year is £100,000 and income tax relief is available at 50%. Again, any gains on SEIS shares are exempt from CGT provided the shares are held for 3 years, however any loss arising is available to offset against your general income.

In both EIS and SEIS, the shares are not liable to Inheritance Tax on death if owned for at least 2 years.

A Venture Capital Trust (VCT) is a collective investment fund which invests in unquoted trading company shares. VCT dividends and capital gains can be tax free. Income tax relief is available at 30% on subscriptions into VCT shares up to £200,000 per tax year so long as the shares are held for at least five years.

Potential Actions

1. Consider the qualifying conditions for ER and/or Investors Relief to ensure these are met in advance of any disposal
2. Ensure the increased qualifying holding period is taken into account on any disposals on or after 6 April 2019.

Inheritance Tax (IHT)

Essentially, if your estate is worth more than £325,000 at death, there could be IHT to pay by your executors. It is worth considering your exposure to IHT on a regular basis as this can change year on year. Certain exemptions and reliefs are available which may be worth considering:

IHT Annual Exemption

Gifts of up to £3,000 per year can be made on an IHT free basis. This limit increases to £6,000 if the previous year's annual exemption has not been used. A married couple can therefore make an IHT exempt gift of up to £12,000.

In addition, there is a small gifts allowance of £250, which allows gifts of up to £250 to be made without IHT consequences. The £250 limit is per recipient per tax year.

Gifts can also be made in consideration of a marriage as follows:

- £5,000 to children
- £2,500 to grandchildren and
- £1,000 to anyone else.

Normal Expenditure out of Income

There is an exemption for making regular gifts out of your income so long as certain conditions are met. This can allow you to make a sizable gift that immediately falls out of your estate.

Business Relief

This is a valuable IHT relief which may apply to exempt or partially exempt business property on death. BR is an important part of succession planning but, due to the complexity of the BR rules, the relief may not be due even though you expect to meet the conditions.

It is important to regularly review your BR position to ensure that it continues to apply and that your business activities do not jeopardise your BR position.

Potential Actions

1. Review your exposure to IHT on a regular basis
2. Consider making gifts to utilise the annual allowances ahead of the end of the tax year



Upcoming Changes

Capital Allowances

The annual investment allowance (AIA) increased from £200,000 to £1,000,000 from 1 January 2019. This allows a 100% deduction to be taken on qualifying expenditure in the year of purchase up to the level of the allowance. The increased AIA will need to be apportioned unless your accounting period ends on 31 December. For example if your accounting period ends on 31 March 2019 then the AIA available would be £150,000 for the nine months to 31 December 2018 and a further £250,000 for the three months to 31 March 2019.

Any capital expenditure not qualifying for AIA or in excess of the allowance may qualify for capital allowances at 18% or 8% (reducing to 6% from 6 April 2019).

A new Structures and Buildings Allowance has been introduced for expenditure on new non-residential buildings incurred on or after 29 October 2018. Relief is given at a flat rate over 50 years at 2% per annum.

Stamp Duty Land Tax

From 1 March 2019, any Stamp Duty Land Tax (SDLT) due is payable to HMRC within 14 days of completion rather than the previous 30 days.

Making Tax Digital for VAT

The new rules have effect from 1 April 2019 and will apply for businesses with a turnover above the VAT threshold (currently £85,000). Such businesses must keep digital records for VAT purposes and provide their VAT return information to HMRC using Making Tax Digital (MTD) function compatible software.

Entrepreneurs' Relief

From 6 April 2019, the qualifying period for which shares must be held to qualify for Entrepreneurs' relief is to be extended from 12 months to 24 months. Therefore if you are considering a disposal of any such qualifying shares that were acquired between 6 April 2017 and 5 April 2018, care should be taken as to when these are disposed of.

Capital Gains on Residential Properties

From 6 April 2020, a capital gains tax return and payment on account will be due within 30 days of completion of the sale of a residential property. This will accelerate the payment of tax, for example if a property sale completes on 5 April 2020, the tax will be due on 31 January 2021. However, if the sale completes on 6 April 2020, the tax will be due on 6 May 2020 i.e. 8 months earlier.

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