Tax Newsletter – January 2017

This month's newsletter includes articles covering: tax planning opportunities for 2016-17, the benefit of repaying an employer for company car private fuel, a list of the current advisory car fuel rates and a reminder of CGT planning options for 2016-17.

As 5 April 2017 rapidly approaches there is still time to review your tax position to make sure you have minimised your tax bill. Please contact us if you would like advice on saving tax before the end of the tax year.

Is your employer still paying for your private fuel?

It is worth repeating an article we first published March 2016 that highlighted the cash benefit to company car drivers and their employers, of reimbursing the cost of fuel provided for private motoring. The rates have been updated for 2016-17.

Since the tax on private fuel provided with company cars is so high, many employers now have an arrangement whereby they no longer pay for private fuel. In this case, the employee must reimburse the employer for private fuel included in petrol bills paid by the employer. Otherwise, the employee may face a tax charge.

Consider the following example:

If your private mileage is currently 560 miles a month, and you drive a 1900cc diesel engine car, the rate per mile to cover fuel charges, as quoted in the latest rates published by HMRC, is 11p per mile. Accordingly, you should repay £61.60 a month to your employer.

Based on the above example, if the vehicle's list price when new was £25,000, and the car benefit charge rate was 26% (based on a 130g/km CO2 rating) the benefit in kind charge for the year would be £6,500. With no repayment of private fuel, there would also be a £5,772 car fuel charge. Both these amounts would be added to your taxable income for the year. If you were a higher rate tax payer the car fuel charge would cost you £2,308.80 a year in additional tax (£5,772 x 40%). This amounts to £192.40 per month.

If your actual private mileage proved, on average, to be 560 miles a month, you would therefore save £130.80 per month (£192.40 - £61.60).

Employers will also benefit as they will no longer be subject to a National Insurance charge on the amount of the car fuel benefit. In the above example, it would reduce NIC costs by £796.54 (£5,772 x 13.8%).

It is worth crunching the numbers. Obviously, the lower your private mileage, the more likely a repayment system will save you money, but you will need to take action before the 5 April 2017.

Capital Gains Tax (CGT) planning 2016-17

This is also an appropriate time of the year to consider your CGT position if you have already disposed of (or are considering a disposal) of an asset subject to CGT during 2016-17.

Most of our readers will be aware that they can make chargeable gains of up to £11,100 in the tax year 2016-17 and pay no CGT. This exemption cannot be transferred to a future tax year or carried back to a previous tax year if it is not utilised.

Many will also remember that it is no longer feasible to sell shares before 6 April 2017 in order to crystallise a CGT loss or a gain that is covered by the above exemption, if those shares, or part of them, are reacquired within 30 days of the disposal. However, it is still possible to reacquire holdings, within the 30 days period, if you use an ISA or self-invested personal pension (SIPP) to make the buy-back.

Transfers of chargeable assets for CGT purposes are exempt between spouses and civil partners. Also, the annual exemption is available to both parties. This combination means that couples may be able to share the gain on a disposal of assets and reduce their overall CGT charge.

This strategy, of transferring partial ownership to a spouse, can also reduce an overall CGT charge if the transferring partner/spouse is due to pay CGT at the higher 20% or 28% rate (as their gains fall to be taxed in the higher rate tax band) and the receiving partner/spouse would only be liable to pay CGT at the lower 10% or 18% (as their share of a transferred gain would fall into their free basic rate band).

The 10% and 20% rates apply from April 2016, but do not apply to disposals of residential property or carried interest – for these latter items, disposals are taxed at 18% to 28%, dependent on where the gains sit in the basic or higher rates bands.

And don't forget, CGT is assessed and payable as part of your Self Assessment. Any tax payable for 2016-17 will be due for payment 31 January 2018. On the same day you will also have to pay any other underpayment of Income Tax for 2016-17 and your first payment on account for 2017-18.

If you own assets that are subject to CGT on disposal, and you, and possibly your spouse, are struggling to fully utilise your CGT annual exemption, or you would like to discuss ways to minimise any CGT payable, please call to discuss your options.

Car fuel advisory rates from 1 December 2016

From 1 December 2016, the advisory fuel rates have changed to:

1400cc or less: petrol 11p per mile, LPG 7p per mile

1401-2000cc: petrol 14p per mile, LPG 9p per mile

Over 2000cc: petrol 21p per mile, LPG 13p per mile

Diesel rates:

1600cc or less: 9p per mile

1601-2000cc: 11p per mile

Over 2000cc: 13p per mile

These rates can be used from 1 December 2016 to calculate the petrol content of mileage rates paid to employees, or as a basis to repay private petrol provided by employers for the use of a company car (see previous article).

Three months to go

All UK taxpayers may benefit from pausing, taking a deep breath, and considering their planning options as we approach the run-up to yet another tax year end.

Individuals

The prime areas for consideration are where income levels are threatening to break through into the higher rates of Income Tax. For 2016-17, these are:

- If your taxable income exceeds £32,000 (after deducting your £11,000 personal allowance) you will pay Income Tax on any excess at 40%.
- If your taxable income exceeds £150,000 you will pay Income Tax on any excess at 45%.
- And if your income is between £100,000 and £122,000 you will pay income tax at a marginal rate of up to 60%. This is due to the gradual loss of your personal allowance in this income band.

These tax rates are for general income - for dividends see Businesses below.

You could, for instance, consider:

- Increasing pension contributions
- Salary sacrifice opportunities before the rules change from April 2017
- Gift Aid donations
- Transferring income producing assets into joint ownership with your spouse
- Deferring bonus payments until after 5 April 2017, especially if your income for 2017-18 is planned to drop as compared to 2016-17.

Apart from these strategies, there are other legitimate planning opportunities you may be able to employ in order to minimise your exposure to the higher rates. The key is to take a hard look at the numbers before 5 April 2017.

Businesses

For businesses with March 2017 year ends, it's all about timing and an in-depth look at trading results for the first three quarters BEFORE the end of the tax year.

Items that could be considered are:

- The timing of capital acquisitions to maximise use and impact of tax allowances. For example, would it be more beneficial to delay the purchase of new plant until after March 2017, and claim against profits for 2017-18, when planned profitability is expected to increase, as compared to 2016-17? Or advance the purchase and thus tax relief?
- Deferring or bringing forward expenditure – this could include tax allowable refurbishments, maintenance to equipment and similar costs.
- If your business is a company, consider retaining profits within it rather than extracting them as dividends in excess of the annual tax free allowance of £5,000. In this way you could retain cash in your business after paying 20% Corporation Tax, rather than creating an additional dividend tax charge (for dividends drawn in excess of £5,000) of between 7.5% (basic rate), 32.5% (higher rate), and 38.1% (additional rate).

Tax Diary January/February 2017

1 January 2017 - Due date for Corporation Tax due for the year ended 31 March 2016.

19 January 2017 - PAYE and NIC deductions due for month ended 5 January 2017. (If you pay your tax electronically the due date is 22 January 2017)

19 January 2017 - Filing deadline for the CIS300 monthly return for the month ended 5 January 2017.

19 January 2017 - CIS tax deducted for the month ended 5 January 2017 is payable by today.

31 January 2017 – Last day to file 2015-16 Self Assessment tax returns online.

31 January 2017 – Balance of Self Assessment tax owing for 2015-16 due to be settled on or before today. Also due is any first payment on account for 2016-17.

1 February 2017 - Due date for Corporation Tax payable for the year ended 30 April 2016.

19 February 2017 - PAYE and NIC deductions due for month ended 5 February 2017. (If you pay your tax electronically the due date is 22 February 2017)

19 February 2017 - Filing deadline for the CIS300 monthly return for the month ended 5 February 2017.

19 February 2017 - CIS tax deducted for the month ended 5 February 2017 is payable by today.