Ellacotts Tax Newsletter – January 2018

Our newsletter this month includes: a reminder of issues to deal with during 2018; a fresh look at the sole trader v limited company debate; an outline of strategies to reduce tax and NIC payable when employers pay for private fuel; and CGT planning tips for 2017-18.

Our next newsletter will be published on Thursday 1 February 2018.

Happy New Year…

Let us hope that 2018 presents opportunities to build our business interests and improve the financial position of our families. Certainly, there were many changes last year, not least the ongoing implications of the Brexit vote, that have proved to be challenging and not only for the politicians.

A reminder, as we look forward to the new year, that our actions in the future will be dictated to some extent by past changes. We have listed below just a few of these challenges, some of which we reported in length last year, and many of which will require action on our part in the coming year.

If you are in business:

- Deal with your obligations, if any, to comply with the General Data Protection Regulation – see the article we posted on this topic last month.
- Deal with your obligations, if any, to comply with the Criminal Finances Act 2017 – again, see the article we posted on this topic last month.
- Review your management accounts before the end of your current account's year to make sure that there are no changes required before the end of the trading year. From a tax planning point of view this is essential as once your trading year or tax year end passes opportunities to save tax may be permanently lost.
- Are you aware of your obligations to pay tax (VAT, corporation tax, income tax or other National Insurance liabilities) during 2018. At the end of this month your self-assessment dues for 2016-17 and payment on account for 2017-18 fall for payment.
- Are you in the most effective VAT scheme for your size and type of business?
- If you are still recording your accounts on spreadsheets or handwritten records, have you considered using internet based accounts software? Come the day we are required to upload our accounts data to HMRC, under their Making Tax Digital program, using a computerised system that links with the tax office IT will make the job less of a chore.

For individuals:

- Look at salary sacrifice opportunities especially if your taxable income for 2017-18 will exceed £100,000 for the first time. Any strategy that shifts income into tax-free benefits could save you marginal tax at 60% if you have earnings between £100,000 and £123,000.
- Parents claiming child benefit should be wary if one partner's earnings are likely to exceed £50,000 for 2017-18. A high income child benefit charge may apply. This could mean benefits being repaid to HMRC and the possibility that you may have to register for self-assessment for the first time.
- Check out your eligibility to pay more into your pension fund before 6 April 2018.
- Have you fully utilised your tax allowances for 2017-18? For example, your personal tax allowance £11,500; the capital gains tax exempt amount £11,300; and inheritance tax tax-free gifts allowances.
- Have you taken advantage of the £20,000 ISA limit?

Please call if you would like to review any of these or other planning opportunities for 2017-18. Don't forget that once the year end passes any likely benefits that you could have benefitted from may be permanently lost.

Sole trader or incorporated?

From April 2018, the £5,000 tax-free dividend allowance is reducing from £5,000 to £2,000.

Does this mean that converting from self-employed to a limited company arrangement to save tax and NIC is no longer a viable option? Readers who have adopted this strategy will have likely seen a reduction in taxes due thus far, but the partial loss of the dividend allowance will reduce overall savings that can be made.

However, in most cases benefits will continue to accrue albeit at a reduced rate, and if profits are retained in the company, rather than withdrawn as salary or dividends, these benefits could still be significant.

- A company paying tax at 19% on its taxable profits can retain 81% to improve reserves and fund investment.
- A sole trader or partnership, paying income tax at 40% or 45% can only retain at best 60% or 55% of taxable profits.
- Sole traders or partnerships who are taxed at the basic rate of 20% will still be required to pay additional NIC on their profits and will not be able to retain funds at the same rate as a company.

We will be keeping an eye on the numbers for clients who have adopted this strategy and will discuss their options when we review their tax position during 2018.

CGT opportunities?

This is also an appropriate time of the year to consider your capital gains tax position if you have already disposed (or are considering a disposal) of an asset subject to CGT before 6 April 2018.

Most of our readers will be aware that they can make chargeable gains of up to £11,300 in the tax year 2017-18 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 2018 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 – this sell and buy-back activity is often described as “bed and breakfasting”.

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 2017-18 will be due for payment 31 January 2019. On the same day you will also have to pay any other underpayment of income tax for 2017-18 and your first payment on account for 2018-19.

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.

Does your employer still pay for your private fuel?

As we are approaching the end of yet another tax year, it is worth repeating our suggestion that highlights 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 2017-18.

Since the tax on private fuel provided with company cars is so high, many employers have an arrangement whereby they no longer pay for private fuel. In many cases this means that the employee must reimburse the employer for private fuel included in petrol bills paid by the employer.

Consider the following example for 2017-18:

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 28% (based on a 130g/km CO2 rating) the benefit in kind charge for the year would be £7,000. With no repayment of private fuel, there would also be a £6,328 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 £2,513.20 a year in additional tax (£6,328 x 40%). This amounts to £210.93 per month.

If your actual private mileage proved, on average, to be 560 miles a month, you would therefore save £149.33 per month (£210.93 - £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 £873.26 (£6,328 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 act before the 5 April 2018.

Tax Diary January/February 2018

1 January 2018 - Due date for corporation tax due for the year ended 31 March 2017.

19 January 2018 - PAYE and NIC deductions due for month ended 5 January 2018. (If you pay your tax electronically the due date is 22 January 2018)

19 January 2018 - Filing deadline for the CIS300 monthly return for the month ended 5 January 2018.

19 January 2018 - CIS tax deducted for the month ended 5 January 2018 is payable by today.

31 January 2018 – Last day to file 2016-17 self-assessment tax returns online.

31 January 2018 – Balance of self-assessment tax owing for 2016-17 due to be settled on or before today. Also due is any first payment on account for 2017-18.

1 February 2018 - Due date for corporation tax payable for the year ended 30 April 2016.

19 February 2018 - PAYE and NIC deductions due for month ended 5 February 2018. (If you pay your tax electronically the due date is 22 February 2018)

19 February 2018 - Filing deadline for the CIS300 monthly return for the month ended 5 February 2018.

19 February 2018 - CIS tax deducted for the month ended 5 February 2018 is payable by today.