Ellacotts Tax Newsletter – November 2017

Our newsletter this month includes: a review of recent forecasts regarding the forthcoming Budget, a note of how to spread tax arrears under self-assessment, the carry back rules for charitable donations and a reminder that March year end companies will need to settle their Corporation Tax bill on or before 1 January 2018.

On Thursday 23 November our Tax and Wealth Planning team will hold a timely summary of the Autumn 2017 Budget announcements. Our specialists will explain how it affects you and what you can do to save on tax payments. Sessions are held in Banbury and Kettering.

The Budget crystal ball

There is continuing speculation in the financial press about the likely changes that Philip Hammond will introduce in his Budget announcements on 22 November 2017.

Politically, he is being encouraged to be radical, to offer more to younger voters. Changes mooted include:

- Easing the burden of student debt – this may include a one-off write down of loans, reducing interest charges and we could see an increase in the income threshold to £25,000, the point at which loan repayments are required to be made.
- Lowering tax rates for younger people – if enacted this could prove to be a challenge for HMRC's ailing computer systems as it would introduce a raft of alternative rates based on age.
- Reducing tax relief on pension contributions – presumably withdrawing relief at higher rates and replacing with a flat rate of around 33%.
- Reducing or exempting older persons from stamp duty – this would encourage retired people to down-size and make room for younger families to up-size.
- Switching stamp duty liability – the Association of Accounting Technicians has even promoted the idea that stamp duty liability be switched from the buyer to the seller. This would encourage upward mobility as stamp duty liability on an exchange from a less expensive to a more expensive property would result in a lower tax charge.
- Easing stamp duty on high value sales – there is concern that the present punitive stamp duty rates for high value sales are slowing down the entire UK property market and that even marginal reductions in rates will counter this situation.
- The Chancellor is also tipped to invest a further £10bn into the Help to Buy scheme.
- The Enterprise and Seed Enterprise Investment schemes have been put under review this year. Could this signal a reduction in tax relief offered from 30% to 20% and perhaps increasing the period EIS shares be held?

Mr Hammond has an unenviable task and it will be interesting to see how he uses his Budget announcements later this month to reinvigorate interest in his party's future election prospects.

Paying self-assessment tax by instalments

If you file your 2016-17 self-assessment tax return on or before 30 December 2017, you can elect to spread the repayment of any underpayment of tax for 2016-17 to the tax year 2018-19. This is done by amending your tax code for 2018-19 such that any arrears are repaid by increasing your tax payments each pay period.

There are caveats to the use of this facility, one of which we have already mentioned, that you need to file your 2016-17 return online by 30 December 2017 (if you still file a paper return the filing deadline has passed, 31 October 2017, and so this option would not be available unless you filed prior to this date).

There are two further limitations:

- You owe less than £3,000 for 2016-17, and
- You pay tax via PAYE on your employed earnings or on a private pension.

Additionally, you won't be able to repay outstanding tax via your tax code if:

- You would pay more than 50% of your PAYE income in tax, or
- You would be paying more than twice as much tax as you usually do.

If you can use this scheme it would spread your tax repayments over a twelve-month period (6 April 2018 to 5 April 2019).

Carry back charitable donations

One of the few remaining options to carry back tax allowable payments to a previous tax year is the facility to set off certain charitable donations made after 5 April 2017, to the tax year 2016-17.

Allowable donations have the effect of extending the amount of income you can earn at the basic rate of income tax – the donations extend the basic rate tax band. This can be a useful planning device if say your income for 2016-17 included a one-off boost that meant you paid higher rate tax (40%), but your income for 2017-18 would only be taxed at basic rate (20%). By carrying back any charitable donations made after 5 April 2017, you would decrease your higher rate tax liability for 2016-17.

You automatically qualify for basic rate income tax relief on your gift aid donations, you effectively pay a net of tax figure to the charity and they reclaim the deemed basic rate tax from HMRC. Accordingly, this carry back option will have no impact on your tax liabilities if you are a basic rate tax payer in both years. The carry back will also have no effect on the charities' finances.

Taxpayers need to be careful when considering their options as you can only qualify for relief if your tax payments in a year equal or exceed the deemed basic rate tax credits deducted from your donations. HMRC notes confirm:

But for Gift Aid, you can also claim tax relief on donations you make in the current tax year (up to the date you send your return) if you either:

- *want tax relief sooner*
- *won't pay higher rate tax in current year, but you did in the previous year*

You can't do this if:

- *you miss the [filing] deadline (31 January [2018] if you file online [for 2016-17])*
- *your donations don't qualify for Gift Aid - your donations from both tax years together must not be more than 4 times what you paid in tax in the previous year.*

If you feel that you may benefit from this strategy we would be delighted to check out the numbers for you.

Corporation tax payment deadline for March year end

Many companies have adopted the end of March each year as their accounting year end date.

Corporation tax is payable by most smaller companies nine months and one day after the end of their accounts year end. Accordingly, companies that have adopted a 31 March date will need to pay any corporation tax liability for the year to 31 March 2017 on or before 1 January 2018; just a few weeks away.

The same dates also determine the payment of additional corporation tax if certain overdrawn director's loans (at 31 March 2017) are not repaid before the end of the year. Additional corporation tax due will be based on 32.5% of any applicable director's or shareholder loans affected by this ruling. The tax can be recovered, but there will be a delay. Repayments cannot be made until the effective payment date for the accounting year during which the loans were cleared. Effectively, if the loans are paid back during May 2018, a refund will not be made until 1 January 2020.

Tax Diary November/December 2017

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

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

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

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

1 December 2017 - Due date for corporation tax due for the year ended 29 February 2017.

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

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

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

30 December 2017 - Deadline for filing 2016-17 self-assessment tax returns online to include a claim for under payments to be collected via tax code in 2018-19.