AUDIT • TAX • ADVISORY

Year End Tax Planning Guide

2019/20

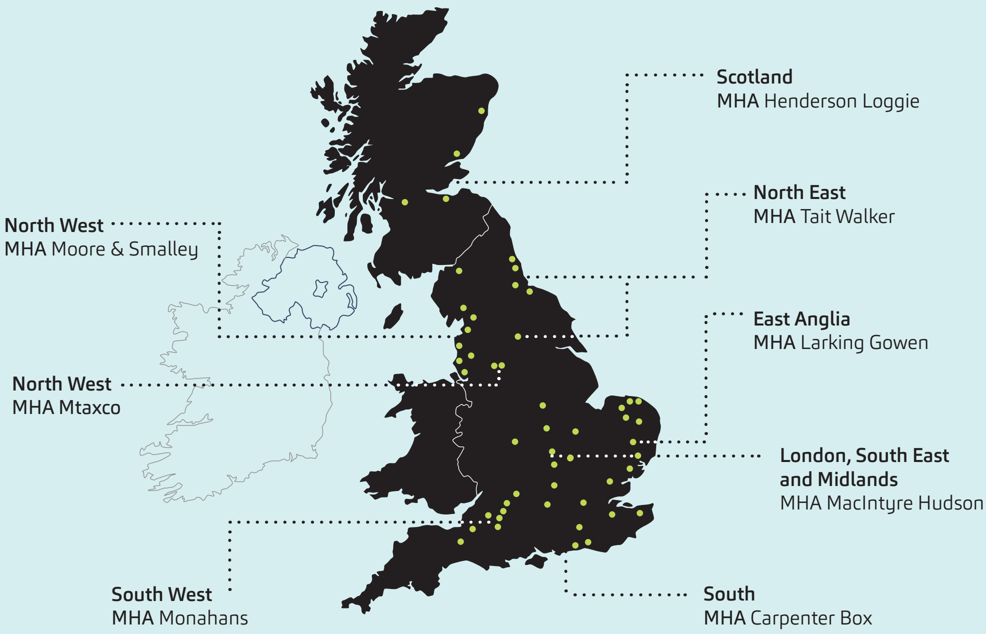
Now, for tomorrow

About MHA

MHA is an association of progressive and respected accountancy and business advisory firms with members across England, Scotland and Wales. Our member firms provide both national expertise and local insight to their clients. MHA members assist clients with their needs wherever they are in the UK, as well as globally through our membership of Baker Tilly International, which has a network of trusted advisors covering 146 territories worldwide.

Our Services:

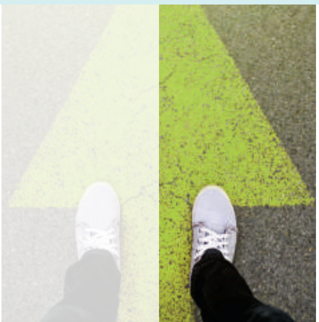
- Business structuring
- Employment tax services
- Inheritance tax planning
- Partnership tax services
- Tax investigations
- VAT
- Corporation tax
- Executorships
- International tax services
- Owner managed businesses
- Personal tax
- Trust tax
- Wealth maximisation
- Outsourcing



National Reach

50+

Offices nationwide



International Reach

742

Offices in 146 territories

8

Independent accountancy firms

Combined turnover of

£143m

10th

Largest network in the world by combined revenue

US$3.9bn

Combined member firm revenues

Contents

This information is correct at time of Issue February 2020

MHA is the trading name of MHCA Limited, registered in England, registered number 07261811, registered office: Moorgate House, 201 Silbury Boulevard, Milton Keynes MK9 1LZ. MHA is a UK association of independent accountants and business advisors. MHA is an independent member of Baker Tilly International through its association with MHA. MHA is an independent member of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

Brexit Planning

The UK left the EU on 31 January 2020

and from that date entered a transitional period which ends on 31 December 2020. Existing intra-EU VAT and duty rules will apply throughout the transitional period, so for the time being it is business as usual.

During the transition period:

1. Businesses will continue to complete European Sales Lists and Intrastat to report their EU transactions
2. Simplifications and special procedures such as triangulation, margin schemes, Mini One Stop Shop and intra-EU VAT recovery via the portal will remain
3. There will be no customs duty tariffs imposed on intra-EU goods.

No-deal remains a possibility

The no-deal emergency measures announced in October 2019 will be mothballed for now, however, the amendment to the Brexit Bill to prohibit the extension of the transitional period raises the potential risk of a no-deal at the end of 2020.

Most observers agree that 11 months to negotiate and finalise a free trade agreement is wildly optimistic and without the ability to extend, no-deal does not disappear. In the meantime, those signed up to the TSP (transitional simplified procedure) measures implemented by HMRC to make imports into the UK easier for the first year, should keep these on file in case no-deal raises its head again.

Customs Union

We will remain within the Customs Union during the transitional period. However, we recommend that businesses in manufacturing, food and motor sectors, and those with parent or subsidiary companies based in either the EU or in Northern Ireland start planning for 2021.

Customs warehousing, inward processing relief, outward processing relief and authorised economic operator are complex applications with a long lead in time. These regimes will be all important once we leave the EU in mitigating customs duty exposure. It takes up to 120 days to secure a Duty Deferment Account with a customs guarantee.

In September 2020 HMRC is due to fully launch its new customs declaration system (CDS) which will involve sweeping changes to the way import and export declarations are made. This will impact all importers and exporters due to the extensive changes imposed under the new system. This should be factored into any customs planning to ensure a business can transition effectively.

From 1 January 2021 businesses trading intra-EU will have an increased involvement in the international supply chain. All imports and exports in and out of the UK will be subject to customs declarations and added controls.

Action Point

Businesses in the manufacturing, food and motor sectors, and those with parent or subsidiary companies based in either the EU or in Northern Ireland must start planning for changes to the Customs Union ahead of 2021.

Action Point

The UK exit from the European Union is likely to cause significant changes to the VAT accounting obligations of UK businesses. Affected businesses need to get to grips with these changes as soon as possible.

Income Tax

£12,500

2019/20 - tax-free personal allowance

The starting point in tax planning is to understand where your income is likely to fall relative to the tax thresholds.

For 2019/20, the tax-free personal allowance is £12,500 and the next £37,500 is taxed at the basic rate of 20% (7.5% for dividend income). Higher rate tax of 40% (32.5% for dividend income) is charged on income above £50,000 and additional rate tax of 45% (38.1% for dividends) is charged on income above £150,000. Note that dividends are treated as the top slice of income, so the basic and higher rates are first allocated against other income.

The personal allowance is reduced by £1 for every £2 of income above £100,000. There is therefore no personal allowance at all where income exceeds £125,000. This also means that, over the income band £100,000 to £125,000, the effective rate of income tax is 60%. Or to put it another way, tax relief at 60% is available on pension contributions and gift aid payments in this income band. To make the best use of tax allowances, sufficient income should be generated where possible to fully utilise the personal allowance and basic rate band. This may be done by careful planning of the timing of dividends from a private company or distributions from a family trust.

The personal savings allowance entitles basic rate taxpayers to £1,000 of tax-free savings income and higher rate taxpayers £500. However, additional rate taxpayers receive no allowance.

Action Point

Transferring income yielding assets, or an interest in those assets, to a spouse or civil partner ensures both parties have income to use up relevant allowances.

Action Point

There may be potential to divert income from grandparents or other relations to take advantage of a child's personal allowance.

Individuals with incomes near these thresholds can reduce their tax liabilities by reducing their taxable income. There are a variety of ways this can be achieved, from changing income into non-taxable forms, making pension contributions, making tax incentivised investments and making donations to charity.

The dividend tax allowance of £2,000 is available for all taxpayers. Amounts falling within the dividend allowance are taxed at 0%. The allowance will, however, use any part of the lower rate bands that they would otherwise have fallen into.

Married couples and civil partners have further opportunities for using their allowances and it should not be forgotten that children also have tax free allowances.

If you receive child benefit, it is important to remember that taxpayers with adjusted net income in excess of £50,000 during the tax year are liable to high income benefit charge. If both partners have income above this level, the charge applies to the partner with the higher income.

The charge is 1% of the full child benefit award for every £100 of income between £50,000 and £60,000. Where income is more than £60,000, effectively all child benefit is lost. You can elect not to receive child benefit if you or your partner prefer not to pay the charge.

Capital Gains Tax

The annual exemption for 2019/20 is

£12,000

When an asset has become valueless or worth next to nothing, it may be possible to make a "negligible value claim" in order to crystallise a capital loss.

Use your annual exemption

The annual exemption for 2019/20 is £12,000. This is a 'use it or lose it' allowance; it cannot be carried forward to future years. It therefore makes sense to crystallise gains each year to the extent of the annual allowance, if possible.

Note that under the 'bed and breakfasting' rule (selling some shares and then buying the same shares back shortly afterwards to crystallise a gain or a loss), a gain or loss does not crystallise for tax purposes if you sell shares and repurchase the same shares within 30 days.

Action Point

It is possible to repurchase the same shares through an ISA. Alternatively, a married couple can arrange for one partner to sell shares after their spouse has transferred some loss-making shares to them to reduce the overall gain.

Rates of tax

The rate of capital gains tax (CGT) is 10%, where the total of taxable gains and taxable income is less than £37,500. Any excess gains are taxed at 20%. Where entrepreneurs' relief (ER) applies, the rate of tax on the whole gain is 10%.

Investment property

The 10% and 20% rates also apply to gains on commercial property but gains on residential properties are taxed at the higher rates of 18% and 28%.

Crystallise and use capital losses

Capital losses must be offset against capital gains in the same year. Unused losses are carried forward indefinitely and can then be offset against future gains.

A formal claim is required. The claim must be submitted to HMRC within four years of the end of the tax year of the loss, otherwise it will be time-barred. Hence, claims must be made by 5 April 2020 in respect of 2015/16 losses, if claims have not already been filed.

When an asset has become valueless or worth next to nothing, it may be possible to make a "negligible value claim" in order to crystallise a capital loss. The claim can be related back up to two tax years in certain circumstances, allowing the loss to be offset against gains made in earlier years.

Entrepreneurs' relief

CGT is charged at 10% where ER applies, subject to a life-time limit of gains totalling £10m. ER applies to the sale of a trading business carried on as a sole trader or partnership, or to the sale of shares in a trading company. It can also apply to personally held assets that have been used in the trade of a partnership that you are a partner of or a company that you are a shareholder in.

Action Point

Let us know if you have ever lived in a rental property you are selling; we may be able to claim a partial principal private residence exemption and an additional letting exemption to reduce the CGT you must pay.

Action Point

Business owners should consistently review their ER position as it is easy to fall foul of the detailed rules. Considering the media speculation, individuals should assess the impact that any of the above changes could have on them.

The Conservative government has previously stated that they plan to 'review and reform' ER and there is increased media speculation that changes could be made as early as budget day. Possible areas the government could look to reform are:

- Increasing the tax rate from 10%
- Reducing the lifetime limit from £10m
- Increasing the minimum shareholding percentage from 5%
- Increasing the minimum ownership period from two years
- Introducing a working-time requirement.

Your main residence

Ownership of two homes in the UK is becoming more commonplace as couples who both own houses marry, houses are inherited, parents buy houses for their children to live in, or people just buy a place in the country, either to let or to escape to at weekends.

The gain on your principal private residence is exempt from CGT. If you have more than one private residence, your 'main' residence will normally be, by default, the one in which you spend the greatest time. However, it is also possible to determine that matter by nominating one of them as your main residence. This requires careful planning, since the flip side of a gain on one residence being treated as exempt is that a gain on the other residence will become chargeable. Written nominations must be submitted to HMRC within 24 months of any change in residences becoming available.

From April 2020, the rules on two ancillary reliefs, namely lettings relief and final period exemption will change. Currently, lettings relief of up to £40,000 (£80,000 per couple) is available for those landlords who have let out a property that is, or has been, their main home. From April 2020, this relief will only apply to landlords who are in shared occupancy with their tenant.

In addition, the final period exemption will be reduced from 18 months to 9 months.

Landlords considering selling a property that has been their main home at some point should assess the impact of the changes to lettings relief and consider whether accelerating a sale to before 6 April 2020 would be beneficial.

Marital breakdown

If you have permanently separated from your spouse during this tax year, you may want to consider dealing with transferring assets between you before 5 April 2020. This is because assets can pass between separated spouses without capital gains tax in the year of permanent separation. Transfers taking place after this deadline may attract capital gains tax.

Action Point

If you own more than one home, consider whether a principal private residence election is needed. You have two years to make an election so the sooner you speak with us, the better the position we will be in to advise on which property the election should be made over.

Tax Favoured Investments

Individual savings accounts are an excellent investment for higher rate taxpayers.

Action Point

Prudent utilisation of the reliefs associated with tax favoured investments as part of a balanced portfolio can make a big difference to future investments' returns, but it is important to consider the risks associated with them and it is essential that professional advice is sought.

Utilise individual savings accounts

Individual savings accounts (ISAs) are an excellent investment for higher rate taxpayers. The maximum allowance is £20,000. You must save or invest by 5 April for it to count for that year and if you don't use the allowance it is lost.

The ISA family has grown considerably since its inauguration in 1999, with a further five ISAs to consider:

1. Help to buy ISA where first time buyers get a 25% cash bonus from the Government on savings made into a help to buy ISA. The maximum cash bonus savers can receive is £3,000 (if £12,000 has been saved). The help to buy ISA closed to new accounts on 1 December 2019. If you have already opened a help to buy ISA, you will be able to continue saving into your account until November 2029
2. Inheritance ISA which allows a spouse or civil partner to inherit the savings in an ISA belonging to their deceased loved one without triggering income tax
3. Lifetime ISA (LISA) where UK residents aged between 18-39 can contribute up to £4,000 per tax year and the Government will then add a 25% bonus at the end of each tax year in respect of the contributions paid
4. Flexible ISA is a basic ISA which allows you to withdraw and replace money from your ISA
5. Innovative finance ISA (IFISA) lets you put your savings with peer-to-peer lenders or invest in companies through crowd funding websites.

Consider investing in enterprise investment schemes and seed EIS Shares

Tax relief is available where you subscribe for shares qualifying for enterprise investment schemes (EIS) or seed EIS (SEIS) relief.

Under the EIS scheme, your tax liability for the year may be reduced by up to 30% of the sum invested. In addition, capital gains from disposals in the previous 36 months or the following 12 months may be reinvested into EIS shares, resulting in a deferral of the gain.

You can invest up to £1m under EIS in the year or up to £2m if you invest in knowledge intensive companies (broadly these are early stage businesses engaged in scientific or technological innovation).

The seed EIS scheme offers another form of reinvestment relief for investors who subscribe for shares in small start-up companies. For 2019/20, the maximum qualifying investment is £100,000.

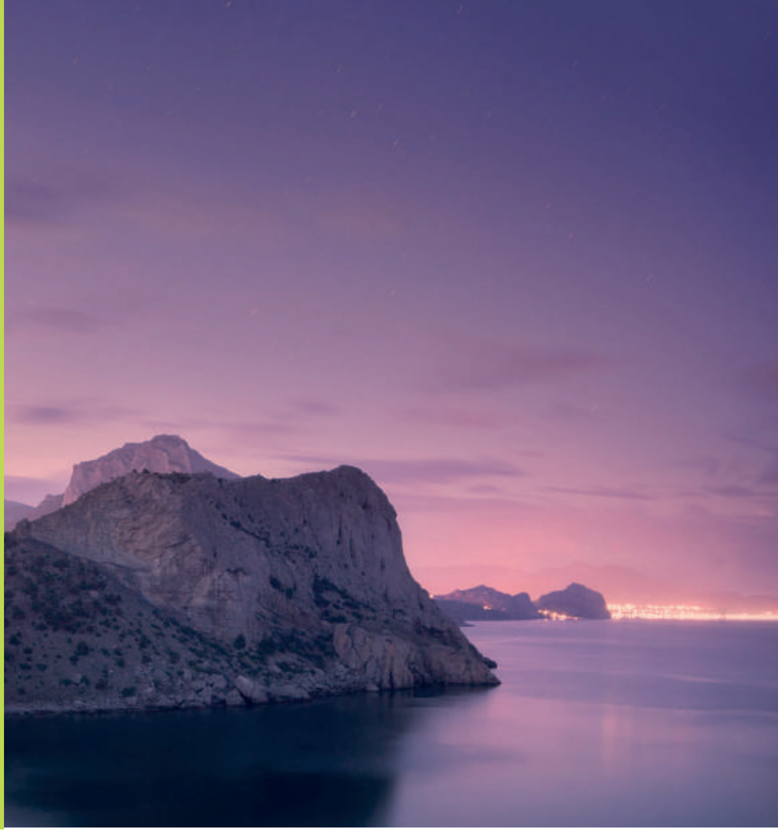
Income tax relief is given at the rate of 50% of the sum invested, and relief may be given against tax in 2018/19 or 2019/20.

Both EIS and SEIS shares are normally exempt from capital gains tax (CGT) and inheritance tax (IHT), subject to detailed conditions being met.

A number of professionally managed EIS and SEIS investment funds exist which invest in a broad range of EIS and SEIS companies on behalf of investors. Whilst such funds should allow for risk management through the spreading of your investment between different companies, it must be remembered that EIS and SEIS investments will, more likely than not, be viewed as carrying with them a high degree of risk.

Action Point

If you are seeking to preserve family wealth within a controlled family environment and/or wish to consider introducing the next generation into the decision- making about investments made, please speak to your professional adviser about how a FIC could benefit you.



Venture capital trusts

Venture capital trusts (VCT) are specialist tax incentivised investments that enable individuals to invest indirectly in a range of small higher risk trading companies and securities. VCTs are companies in their own right and, like investment trusts, their shares trade on the London Stock Exchange.

Shares in qualifying VCTs offer the following tax incentives:

1. Up front income tax relief at 30% of the amount subscribed, subject to a maximum investment of £200,000 per tax year. The investment must be held for a minimum of five years in order to retain the income tax relief. Note that income tax relief on the purchase of VCTs is available only where new shares are subscribed, and not for shares acquired from another shareholder.
2. Dividends received on VCT shares are income tax free (including shares acquired from another holder).
3. CGT exemption applies on the VCT shares (including shares acquired from another holder).

Note that gains from other assets cannot be rolled into purchases of VCT shares.

Please note that the rule changes to SEIS and EIS affecting the annual investment limit and investments which are intended to provide 'capital preservation' shall apply on the same basis to VCT investments.

Family investment companies

Family investment companies (FIC) can be a useful way to protect family wealth. The most appropriate structure will depend on the family's circumstances and objectives.
A FIC enables parents to retain control over assets whilst accumulating wealth in a tax efficient manner and facilitating future succession planning.

By subscribing for shares in the company and making loans to it, the family directors can then invest as appropriate via the corporate structure. If the company makes profits, the profits will be subject to corporation tax at just 19%, presenting a significantly greater advantage than if the investments had been held directly and suffered IHT at 40%/45% or through a trust where the rates applicable to trusts would be applied.

If the company receives interest (from saving accounts), rents (from investment properties) and other income will be taxable. Losses from rental income can be offset against other income in the company.

Gains in a FIC are taxed at 19%, compared to most individuals and trustees who pay up to 28%.

Extraction of profits from the company can be made tax-efficiently according to each shareholder's personal circumstances. Shareholders only pay tax when the FIC distributes income so allowing profits to be retained in the company until required and perhaps taken at retirement when the individual's personal tax rate may be lower.

Any investment gains and income could be paid into a pension plan for the benefit of the shareholders.

Property Investment Business

Tax relief for mortgage/loan interest for residential buy-to-let investors

The amount of interest eligible for tax relief at the higher and additional rates (40% and 45%) is 25% of the interest paid in 2019/20.

The remaining interest will be eligible only for income tax relief at the basic rate (20%). From 6 April 2020, a higher or additional rate taxpayer will only be able to claim relief for any residential buy-to-let (RBTL) interest at the basic rate.

The way that this restriction operates means that a taxpayer's total income will no longer include a deduction for the restricted interest. This can further affect a taxpayer's position if this increase means the taxable income then exceeds certain thresholds which reduce the availability of child benefit, the personal allowance or the pension savings annual allowance.

Annual tax on enveloped dwellings

Annual tax on enveloped dwellings (ATED) can apply when a residential property with a value of at least £500,000 is held in an 'envelope'. Broadly, an envelope includes a limited company, an LLP with a corporate partner or a collective investment scheme.

For any properties owned at 6 April 2020, unless the 'envelope' is a charity, a return will need to be filed by 30 April 2020 and any tax accounted for. In the case of a mid-year acquisition, a separate return must be filed within 30 days of purchase.

The ATED charge is based on the relevant property valuation. Relief from the ATED charge is available in many situations, including where the property is used for property development or as part of a buy-to-let business. It is important to remember, even if there is no ATED charge, a nil return may still need to be filed and the relief claimed to avoid penalties. It is the property value at 1 April 2017 that must be tested against the thresholds for ATED from April 2020. Properties must be revalued every 5 years or on certain other interim events.

Action Point

RBTL investors should consider tax planning opportunities as soon as possible. This could involve paying down debt or refinancing lending. Incorporation may be desirable in some cases, but a careful examination of the relevant factors is required, including any available reliefs from capital gains tax or stamp duty land tax.

Action Point

If you hold a residential property within an envelope, advice should be sought to understand whether it falls within ATED.

The property value at 1 April 2017 must be used. If you file a return six months late, the penalties could be £1,000.

Action Point

You may have some options which will allow you to "bank" the current reliefs before April 2020. The options involve accelerating plans to sell the property or making a gift or transfer before April 2020.

Investors in commercial property should consider the allowance available and read the guidance published by HMRC.

Structure and buildings allowances

A new tax relief is available for businesses (including property rental businesses) that incur capital expenditure on the construction or improvement of non-residential buildings and structures. The relief known as structure and buildings allowances (SBA) will apply at an annual rate of 2% on a straight-line basis once the property has been brought into use for up to 50 years. If a business paid over the market value for the structure, they may only claim for the original market value. The new legislation provides that the relief will not be given for construction projects which began before 29 October 2018 and, in contrast to the tax relief which applies for fixtures in buildings (which will continue unchanged), there will be no balancing allowance or charge when the property is transferred (the new owner will claim the remaining relief) and the relief will reduce the base cost of the property for capital gains purposes.

Private residence relief (PRR)

PRR is the relief from capital gains tax (CGT) which applies to a gain on a residential property which has been your main home. From 6 April 2020 there are two changes to this relief which appear to affect most commonly a property investor who sells a rental property which they once lived in themselves.

Lettings relief

Lettings relief refers to relief of up £40,000 which can apply if you sell a property which has been let out and which has also been your main home at some time. From 6 April 2020 this relief will no longer be available unless you lived in the property as your main home during the period of letting.

18-month "grace period"

A residential property will qualify for private residence relief for any periods during which it was occupied as your only or main residence. The relief is extended to cover the last 18 months of ownership, regardless of how the property has been used during that time. This 18-month period is reduced to 9 months for disposals on or after 6 April 2020.

New CGT 30-day reporting and payment regime

From 6 April 2020 there is a major change to the administration of capital gains tax (CGT) in some cases. The change affects individuals, trustees and personal representatives (but not companies) who realise a taxable capital gain from the sale or other disposal of UK residential property. In such cases they will have to make a residential property return and a payment on account of CGT within 30 days of the completion of the disposal. Members of a partnership are required to individually submit a UK land disposal return for their shareholding in the disposal of the property.

A return is not required where the capital gain is not taxable, for example, if it is covered by private residence relief but otherwise interest and penalties will be charged if the deadline is missed. Where contracts are exchanged under an unconditional contract in the tax year 2019/20 (6 April 2019 to 5 April 2020) but completion takes place on or after 6 April 2020 the 30-day filing requirement does not apply.

Inheritance Tax

Over the last few years the tax receipts from inheritance tax (IHT) have been steadily rising.

Action Point

There are possibilities to ensure estates are reduced during one's lifetime to prevent a large IHT liability on death. As part of the planning, your adviser would need to consider all sources of wealth and take into account many other factors. The building up of a personal balance sheet and establishing income receipts and living cost requirements can bring planning possibilities into focus. Early action can often lead to a large part of one's estate being shielded from IHT.

This is in part due to increasing property prices and wealth while the nil rate band (the threshold at which you start to pay IHT) is frozen at £325,000. The other reason is that many of the reliefs and exemptions available are often not utilised.

The right planning for many individuals can take them out of the IHT net altogether and for others there are significant savings going unused.

Here is a summary of some of the main exemptions, reliefs and allowances. Some are relatively small, but over time the effect can be substantial:

1. Annual exemption – an amount of up to £3,000 can be given away each tax year and, if unused in a year, that amount can be carried forward for one year and utilised in the following year.

2. Small gifts exemption – You can give up to £250 to as many people as you wish each tax year.

3. Gifts out of income – if your income regularly exceeds your expenditure, you can give away the excess. To gain this relief, the gifts must be part of a settled pattern of giving or there must be evidence of the intention to make these gifts. It may be necessary to ensure that you have evidence demonstrating that the gifts have been made out of your post tax income.

4. Lifetime giving – a person may also consider making lifetime gifts in excess of the above exemptions. A person must survive such a gift by seven years for it to fall out of their estate entirely, and the donor must not benefit from the assets once they are gifted. The gifts might be absolute gifts to family members, or they could be gifts into trust. Gifts into trust can give rise to an immediate charge to inheritance tax at the rate of 20% and therefore, transfers to trust should be limited to the available nil rate band. Trusts can be very beneficial, but specialist advice is needed. You always need to watch if capital gains tax (CGT) arises on lifetime gifts, so you should take specialist advice on gifts of assets rather than cash.

5. IHT efficient investments – another alternative can be to place funds into IHT efficient investments, for example, shares in qualifying AIM listed companies. Such investments benefit from business property relief and as such, are relieved from IHT after they have been owned for two years. Appropriate investment advice would be needed when considering such planning, as the commercial risk needs to be considered as well as the tax benefits.

From 2017/18, the residence nil rate band (RNRB) was introduced as an additional nil rate band of £100,000 where a residence is passed onto a direct descendant. This additional allowance will increase each year by £25,000 reaching a maximum of £175,000 by 2020/21. Care needs to be taken with estates worth over £2m, even where business property relief (BPR) or other reliefs apply.

Pensions

From April 2014 you can contribute £40,000

This can be increased if you did not use up your allowances in the preceding 3 years and were a member of a qualifying pension scheme.

From 6 April 2016, the standard annual allowance (AA) of £40,000 for pension contributions (the total of personal and employer contributions) was also reduced by £1 for every additional £2 of an individual's 'adjusted income' over £150,000 and can still affect you if your income from all sources is over £110,000. Unused allowances from 2016/17, 2017/18 and 2018/19 can be brought forward and used in 2019/2020. This can affect you unexpectedly if you are a member of a final salary (e.g. defined benefit (DB)) or career average scheme.

Should you breach the rules and pay too much, you will be subject to an annual allowance charge. Payment of this charge is the individual member's responsibility and will be charged at your marginal rate of tax.

Action Point

If the total of all your pension funds is likely to be at or near £1m by the time you retire, you should seek urgent advice on whether opting for Individual Protection 2016 is appropriate.

Lifetime allowance considerations

Although funds invested within a pension can grow tax free, there is a limit (the lifetime allowance – LTA) on the total amount you can hold in a pension pot: funds in excess of the limit will suffer penalty tax charges when you start to take pension benefits.

The LTA reduced from £1.25m to £1m from 6 April 2016. You can now elect for 'Individual Protection 2016' (IP16) to preserve your individual LTA at the lower of £1.25m or the actual value of your pension funds at 5 April 2016 (if they were above £1m on 5th April 2016).

As with previous reductions, individuals can also preserve the earlier £1.25m LTA by opting for 'fixed protection 2016' (FP16). Although all contributions must have stopped from 6th April 2016 if fixed protection is chosen.

The Government announced that the LTA will increase in line with the consumer price index each year from 6th April 2018. Therefore, from 6th April 2019 for the tax year 2019/20, the LTA increased to £1,055,000.

Stakeholder pensions

Stakeholder pensions allow contributions to be made by, or for, all UK residents, including children and grandchildren from birth.

Consider making a net contribution of up to £2,880 (effectively, £3,600 gross) each year for members of your family, even for those who do not have any earnings.

You can also make pension contributions in respect of family members who do not work (i.e. have no relevant earnings) or cannot afford them.

If you make contributions to your children's pension schemes on their behalf, they get the tax relief and the payments are treated as reducing their taxable income, so it could help keep them below the £50,000 income threshold at which they can retain the child benefit.

The earlier that pension contributions are started, the more they may benefit from compounded tax-free returns.

Pensions freedoms

The popular pension freedom reforms that launched in April 2015 mean that people can now access their whole pension pot at age 55 and spend, save or invest the money as they wish.

Savers can withdraw the whole pot in one go, although you might mistakenly run up a huge tax bill, especially if you were only used to being taxed at the basic rate through an employer.

By withdrawing large portions of your retirement pot, the outcome may mean you move into a higher rate tax bracket.

Flexible access from age 55

Pension investors aged at least 55 (potentially rising to 57 from 2028) will be able to access their pension fund as a lump sum if they wish. The first 25% will be tax free and the rest will be treated as taxable income and will be subject to income tax at their marginal income tax rate. Basic rate taxpayers need to be aware that any income drawn from their pension will be added to any other income received, which could result in them paying tax at 40% or even 45%.

You can also choose to take your pension in smaller lump sums, spread over time, to help manage your tax liability.

Since April 2015, some restrictions have been removed. Fully flexible drawdown will offer considerable freedom, but highlights the need for expert planning advice.

Action Point

If you are in a defined contribution scheme (DC or Money Purchase), you should consider your options now and check what your scheme offers.

If you were already in flexible drawdown prior to 6 April 2015, you can move to the new unlimited regime and draw more income than the current maximum, however that can lead to restrictions on further contributions.

Existing capped drawdown arrangements will continue, although they are currently limited to 150% of a benchmark annuity rate. It should be noted that adopting these new flexibilities will restrict your future ability to invest more into your pension scheme, so care is necessary.

The money purchase annual allowance or MPAA is currently £4,000 and is triggered when taking income from your drawdown not PCLS.

Transferring a final salary scheme

If you have a final salary (e.g. defined benefit (DB)) pension fund, you may still be able to take advantage of the new rules to make unlimited withdrawals. However, to do so you would have to transfer some or all of your pension into a defined contribution scheme (DC or Money Purchase), there are a range of personal pension wrappers available. You should seek financial advice before transferring benefits, as you could lose valuable benefits which need to be weighed against the new flexibilities.

Unfortunately, members of unfunded public sector DB schemes, such as the NHS Superannuation scheme won't be able to transfer to DC schemes.

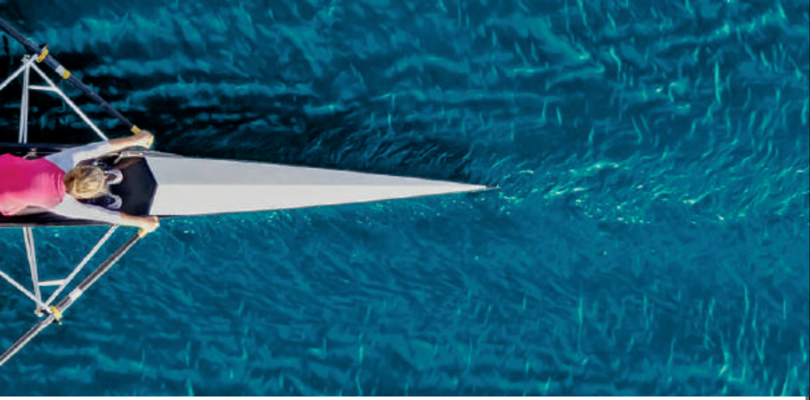
Reviewing your retirement plans

The new rules give considerable freedom of choice. Under the new rules, whilst nobody will be forced to buy an annuity at any age, those who wish to can do so at present and this may prove to remain the most appropriate solution for some people.

Clearly, it has never been more important to make the right choices about your pension fund, both about how you should carry on saving and how you should take the benefits. These decisions will affect you for the rest of your life. It is essential, especially for those nearing retirement, to seek professional advice. Not only will an expert look at your pension fund, but they will consider your wider financial goals. They will also consider another aspect of the new freedoms outlined below.

Action Point

Speaking to an adviser before transferring benefits out of a DB scheme will ensure you are aware of the full implications.



Your pension pot: A tax efficient way of keeping it in the family

Important changes are also taking place with regards to how pensions are treated in the event of your death. Retaining pension wealth within the pension fund and passing it to future generations is now an extremely tax efficient estate planning solution, as it combines inheritance tax (IHT) free inheritance with tax free investment returns and potential tax-free withdrawals. Indeed, it may even change the way we utilise our capital in retirement, possibly leading us to spend other funds before our pensions.

From April 2015, you can nominate who inherits your pension fund. It can be anyone of any age and is no longer restricted to your 'dependents'. If death occurs before age 75, the nominated beneficiary can access the funds at any time, tax free. If the original policy holder dies after age 75, defined contribution pension funds can be taken in instalments or a lump sum and will be taxed at the beneficiary's marginal rate as they draw income from it.

Additionally, the nominated beneficiary can appoint their own successor, allowing the accumulated pension wealth to cascade down generations, whilst continuing to enjoy the tax freedoms that the pension wrapper will provide.

Each time a pension fund is inherited, the new owner has control over the eventual destination of those funds.

Disclaimer

The purpose of this guide is to provide technical and generic guidance and should not be interpreted as a personal recommendation or advice.

The value of investments can go down as well as up and you may not get back the full amount you invested.

Summary

1. There is flexible access to pensions from age 55 (potentially 57 from 2028) and is set to remain at 10 years below state pension age
2. Pension drawdown restrictions have been relaxed
3. Some final salary pensions can be switched to DC, but some transfers from public sector schemes are no longer allowed
4. Death benefits from a defined contribution pension paid to beneficiaries before age 75 will be completely tax free
5. Death benefits paid to beneficiaries after age 75 will be subject to tax at the beneficiary/nominees marginal rate
6. The 25% tax-free amount no longer has to be taken all at once on retirement. It is possible to take smaller amounts over time, each with 25% tax free.

Corporation Tax

Tax has been a political hot topic in recent years both in the UK and globally.

Global action on tax driven by the G20 and the Organisation for Economic Corporation and Development is influencing corporate tax rules both in the UK and overseas. Recent examples include the corporate interest restriction that in some circumstances limits the deductibility of interest for large companies and the development of strategies to tax digital businesses by the UK and other countries.

The UK Government is keen to continue to make the UK an attractive location for investors. However, it is also committed to supporting economic growth through infrastructure spending and "levelling up" those parts of the UK that have suffered under-investment which may limit the scope for substantial further tax cuts in the short term.

Corporation tax rates

The UK has a highly competitive corporate tax system and has deliberately sought to be one of the most competitive amongst the G20 nations. Corporation tax rates are currently 19% (from April 2017) for all UK companies.

As at January 2020, UK corporation tax rates are legislated to fall to 17% on 1 April 2020. However, during the December 2019 election campaign both the Conservative Party and the Labour Party signalled the 17% rate would not be implemented on 1 April 2020. Following the Conservative victory, it is widely anticipated that in the 2020 UK budget due to be delivered in March 2020, corporation tax rates will be held at a rate of 19% rather than reducing to 17%.

However, a corporation rate other than the previously planned 17% is not currently legislated for and is unlikely to be so until March 2020. UK companies will need to continue valuing deferred tax items at the substantively enacted rate of 17% until such time as legislation enacting a higher rate passes its third reading in the House of Commons.

The alignment of rates of corporate tax into one single rate from 1 April 2015 has made the concept of associated companies less important. However, the linking of associated companies will still be relevant for the purposes of establishing the timing of payments of corporation tax liabilities and whether a company should make quarterly payments of its corporation tax liability under the "Large Corporate" payments regime. If the associated companies' total profits exceed £1.5 million, this is likely to trigger these quarterly payments.

2019 was also the first year that companies could fall within the "Very Large Companies" instalment payment rules applying for accounting periods commencing on or after 1 April 2019. These rules accelerate quarterly payment due dates compared to normal quarterly payments. While the trigger for these rules to apply is profits of £20m, the number of associates in the group can reduce these thresholds drastically.

Action Point

While companies should determine as early as possible when their corporation tax liabilities will fall due, the year end may mark a good time to review and confirm the payment profiles that will need to be adopted under the normal, large and very large corporation tax payment regimes taking into account the number of associates in the world-wide group.

Action Point

The year end may be a suitable time for real estate investors who are holding real estate to determine the most effective structure for their investments. MHA tax specialists can give advice factoring in both the costs of transition to a new structure and its ongoing benefits and drawbacks compared to existing arrangements.

Property

Holding residential property in the UK as an individual or partnership has become more expensive, as tax relief for mortgage interest costs is restricted for higher rate taxpayers. As a result of this, many property owners have “incorporated” (this means they have transferred their property business to a company) where there is no restriction on interest costs.

Even more real estate will be brought into corporate taxes this year as from 6 April 2020 overseas companies investing in UK real estate will become liable to corporation tax for the first time instead of being charged to income tax.

Income and expenditure

The general tax planning strategy should normally be to defer income and make full use of all available allowances and deductions although uncertainty over forthcoming corporation tax rates means the benefits of this strategy may be lower than previously thought.

Income

Income is reflected for tax purposes in accordance with what is termed generally accepted accounting principles (GAAP). The general principle is that income arises when the work is done or the goods are supplied and not when you are paid. It may be possible for income to be deferred into a later accounting period. However, the accounting policies must be applied on a consistent basis from one year to the next and must be consistent with GAAP.

Expenditure

There are several ways in which a company can maximise deductions for expenses in an accounting period. Planned expenditure, for example on repairs, could be brought forward, or in some instances, a provision could be made in the accounts for future costs. In general, tax relief is allowed for provisions made in accordance with GAAP.

The following items merit review:

1. ***Bad debts***
The debtors’ ledger should be reviewed in detail so that provisions and/or impairments can be made for bad debtors. It is important that evidence is available where a provision is to be made, that the circumstances under which the debt have proven to be bad were in existence as at the balance sheet date.

2. ***Stock***
The company can make a specific provision against slow-moving, damaged or obsolete stock, but a general provision is not allowed against tax. The company might be able to change the way it values stock, but great care needs to be taken.

3. ***Bonuses***
It might be possible to make a provision for bonuses and/or other remuneration to be paid in the following year, thus advancing tax relief. For such a provision to be allowable, it must be possible to establish that the liability to make the payment existed at the balance sheet date and that the payments must then be paid within nine months of the end of the period, otherwise they will be deductible only in the accounting period in which they are paid.

4. ***Pension Contributions***
If the company has a registered occupational pension scheme (including schemes such as a SIPP or a SASS for the directors and their families), tax relief is given for contributions actually paid in the year, rather than the amounts provided for in the accounts.

Research and development tax relief

Companies carrying out qualifying research and development (R&D) activities can save corporation tax, depending on the costs incurred. Only companies can claim this relief. Sole traders and partnerships cannot. Generally speaking, the relief is under claimed and it is important to identify any potential R&D projects. The section on enhanced tax reliefs sets out more details.

Maximising tax relief for capital expenditure

Before the end of your accounting period you should seek to make use of the annual investment allowance (AIA) and other capital allowances. You may decide to bring forward capital expenditure, particularly where the AIA will be exceeded in the following accounting period. Remember there are rules dictating when capital allowances can be claimed, for example, the requirement for the asset to belong to the company and in respect of extended payment terms.

The AIA is currently £1m until 31 December 2020. The recently introduced Structures and Buildings Allowance at 2% per annum for new commercial buildings acquired on or after 29 October 2018 also needs to be factored into your planning.

Combating tax avoidance

The extent to which compliance with anti-tax avoidance and evasion measures are being tested by tax authorities, auditors and due diligence teams is noticeably increasing.

Large companies now have to publish their "Tax Strategy" online and update it annually. Large multinational groups will also need to consider if they qualify for country by country reporting. Even if the main report is made overseas, UK affiliates of such groups will have a notification requirement.

Companies of all sizes now need to consider how they prevent the facilitation of tax avoidance by their employees and others under corporate criminal offence (CCO) rules.

Transfer pricing (TP) rules exist in the UK and overseas to ensure profits are not shifted to other locations through inappropriate pricing of transactions between affiliates. In addition to these, in 2015, the UK introduced diverted profits tax (DPT) which applies penal taxes to companies that do not deal with transactions with affiliates properly in certain circumstances.

Companies trading with affiliates overseas also need to consider if they have taken appropriate measures to satisfy queries in relation to TP and DPT. These measures should be considered before the end of the accounting period so audit as well as tax authority queries can be dealt with.

Action Point

As with all tax advice and specific opportunities, there has to be a balance met between the commercial objectives of the company and any implementation of the issues mentioned above. This should be spoken through with your local MHA tax specialists who specialise in ensuring advice is technically sound and commercially appropriate.

Action Point

Companies should review their compliance with rules relating to international trading with affiliates, CCO and tax strategy and put in place compliance processes if needed before year end. MHA tax specialists are on hand to give guidance on these complex areas.

Capital Allowances

Annual investment allowance – reduction from 31 December 2020

In the Autumn Budget 2018, the Chancellor temporarily increased the annual investment allowance (AIA) to £1m, which means that the first £1m of qualifying expenditure can be relieved in full in the year it is incurred.

However, this increase is only temporary and is expected to reduce to its former allowance of £200,000 from the 1 January 2021.

This is not as straightforward as it may seem, as the allowance must be pro-rated depending upon your year end, for instance if you have a year end of 31 March 2021 you would be entitled to:

9/12 x £1,000,000 = £750,000

3/12 x £200,000 = £50,000

Giving a total AIA available for utilisation of £800,000.

Enhanced capital allowances

The Chancellor announced in the Autumn budget of 2018, that with the exception of capital expenditure in respect of electric car charging points, the enhanced capital allowances (ECAs) regime will be abolished from April 2020.

Any businesses considering investing in ECA qualifying plant and machinery should seek to do so before this date as it is currently unclear, what if any relief will be available in excess of the standard writing down allowance following this date. Under the current regime, a loss-making company has the opportunity to surrender their identified ECA assets for a cash tax credit.

Action Point

If your company is incurring capital expenditure, it is important to seek specialist advice to ensure the AIA is correctly applied and the relief maximised. It is also important to ensure that the timing of the acquisition of the asset is considered and that you do not miss out on the substantial savings available by falling into the period with a lower available AIA.

Structures and buildings allowance

A new form of relief was introduced following the Autumn Budget 2018, this relief awards a 2% writing down allowance over 50 years (on a straight-line basis) against the cost of construction of non-residential properties or the elements of a mixed use building which are non-residential. Although not dissimilar to the industrial buildings allowance, the new regime covers a much wider sector of construction. However, the relief does not come without its pitfalls and the 2% writing down allowance available each year reduces the base cost of the property when claimed and as such upon disposal of the property an increased chargeable gain may arise. This in turn causes an increase in the administrative burden in that an additional schedule must be prepared to keep track of the relief claimed and the reduced base cost of the asset. This relief is available in respect of construction contracts which were entered on or after 29 October 2018.

Action Point

If this relief is something which you feel may benefit you, please seek advice from an MHA capital allowances specialist who can provide tailored advice and ensure any claim is optimised.

Integral features uplift opportunities

The 'new' fixtures pooling requirement came into force with effect from 1 April 2014 and affects all property disposals after this date.

The statutory pooling requirements essentially cover two key aspects:

1. The vendor must 'pool' the value of all fixtures in the property being disposed of which they have been entitled to; and
2. The two parties must enter into an s198/s199 fixtures election to formally elect the vendor's disposal values and the acquirer's acquisition values. This must be completed within two years of the date of the transaction.

Action Point

If you are buying or selling a property, make sure you consider the elections as part of the process.

Should you have acquired a property post 1 April 2014 and no elections were entered into at the time of acquisition, all may not be lost. The opportunity may be available for an integral features uplift review on 'background' plant and machinery.

Enhanced Tax Reliefs

A company may be able to claim enhanced tax reliefs which give a tax deduction of more than 100% for a range of expenditure which HMRC are seeking to encourage, including:

1. Research and development (R&D) Tax Relief, where relief can be up to 230%
2. Patent box and the reduced tax rate of 10% on certain profits
3. Creative sector tax reliefs where relief can be up to 200%
4. Land remediation reliefs where relief can be up to 150%

For loss making companies, the losses created by these reliefs can often also be surrendered to HMRC for a cash tax credit.

Research and development

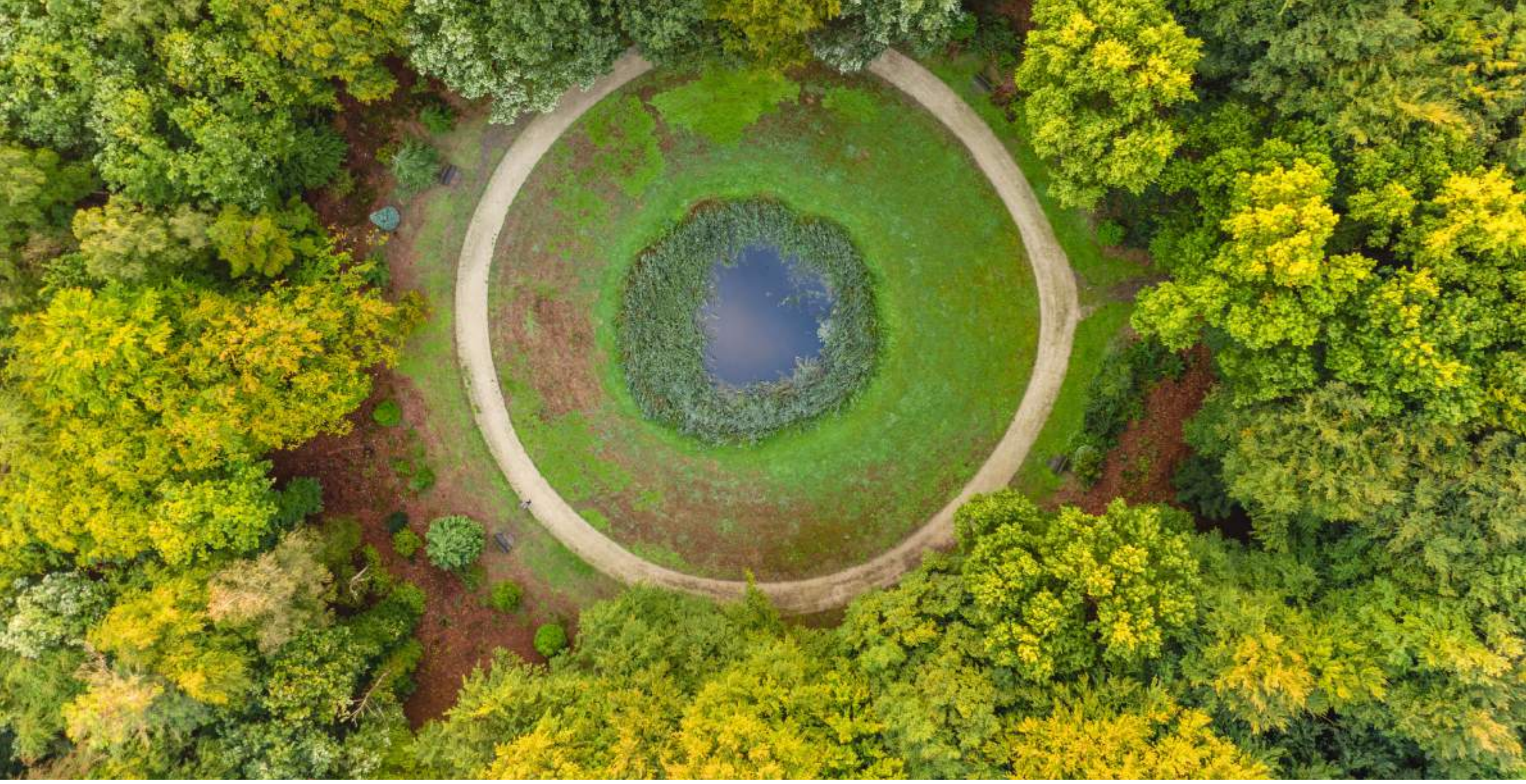
Small and medium sized enterprises (SMEs) are given an enhanced deduction against tax of 230% of the actual eligible costs incurred, with the chance of actual cash refunds in loss making situations. For large companies, the basic tax relief is an "above the line" taxable credit of 11% (12% from 1 January 2018) of qualifying expenditure.

R&D broadly applies where work is being carried out to overcome scientific or technical uncertainty. The eligible expenditure covers staffing costs, consumables, certain other costs such as power, fuel, water and software, sub-contracted work and externally provided workers. It must be related to a trade carried on by the company or be expenditure from which it is intended that such a trade will be derived.

In some cases, small or medium sized companies may be able to claim under the large company scheme if they are precluded from the relief available to small and medium sized companies.

In the 2018 Budget, the government announced that R&D tax credits would be capped by reference to a company's PAYE and NIC spend, effective from accounting periods beginning on or after 1 April 2020.

It is proposed that the cash payment available to loss making companies will be capped at three times the total of the company's PAYE and national insurance contributions



(NIC) liability for that year, to include both employer's and employee's NIC. The cap will apply to the SME regime only.

To protect genuine businesses from the cap, the Government is consulting on the following:

1. Introducing a threshold below which the cap will not apply i.e. the tax credit is below a stated amount
2. Allowing the company to bring in PAYE/NIC's paid in respect of the R&D activity carried on by a connected company
3. Where a loss cannot be surrendered because of the cap, allowing the losses to be surrendered for a tax credit in a later period where sufficient PAYE and NIC was paid – subject to a two-year time limit.

To date, the above has been considered in consultation papers, but nothing has been announced in regard to the rules and protections that will apply.

Patent box regime

The patent box provisions introduced in 2012 can also currently be utilised to reduce tax following R&D activities that culminate in patented innovations. The Patent Box regime is being phased in to effectively apply a 10% tax rate to all profits attributable to products, processes or royalties that carry or include a qualifying patent.

Changes were made to the regime to change the method of calculation for new entrants to the scheme joining after June 2016. Existing entrants are able to continue using the method on patents applied for prior to June 2016 until June 2021.

Creative sector

Creative sector tax reliefs are a growing suite of special tax breaks that are being made available. Examples of this include films, animation programmes, high end TV programmes, video games, theatres, orchestras and museum and gallery exhibitions.

There are detailed and differing conditions for each of these potential reliefs, which companies should seriously consider in order to not miss out on possibly significant tax reliefs.

Land remediation reliefs

Relief can be available on the cost of cleaning up land which had been acquired in a contaminated state. The relief is 150% of the costs incurred and can apply irrespective of whether the costs have been treated as revenue or capital in the financial statements.

This relief is commonly related to clearing out asbestos from old buildings but can also apply to naturally occurring arsenic or radon. Special rules apply to Japanese knotweed. A similar relief may be available for companies that bring long term derelict land back into use.

Action Point

Companies should consider whether they could benefit from being taxed under the patent box regime and make the appropriate election within the deadline, which is generally two years from the accounting period end.

Making Tax Digital for VAT

2019/20 saw the introduction of making tax digital (MTD) for VAT purposes, with the majority of VAT registered entities mandated into the MTD regime from either 1 April 2019 or 1 October 2019.

2020/21 will see the introduction of compulsory digital links for MTD for VAT. This means that the VAT return must be generated directly from core data with no manual intervention after the initial data input stage.

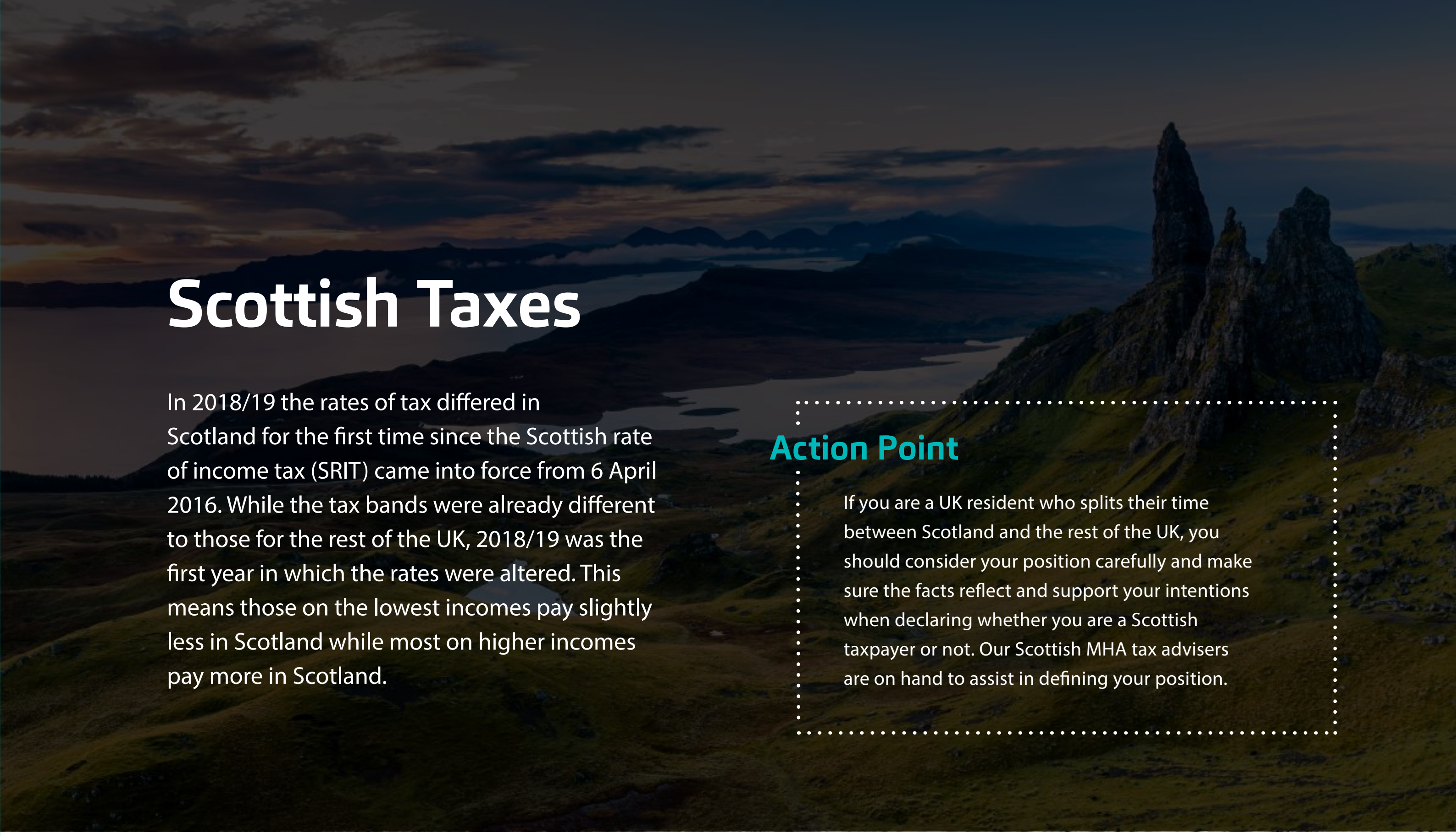
Businesses with complex or legacy IT systems can apply for additional time to put the required digital links in place, subject to meeting certain qualifying criteria.

Making tax digital for income tax and corporation tax

HMRC continue to run their pilot for MTD for income tax purposes. In the 2019 Spring statement the chancellor confirmed that the Government would not be mandating MTD for any new taxes or business in 2020. The earliest date for introduction of MTD for income or corporation tax purposes would therefore be April 2021. However, it is far more likely there would be no new mandates until April 2022 at the earliest.

Action Point

If you are a VAT registered business filing under MTD and you do not yet have your digital links in place, please contact an MHA adviser and we can review your systems to help implement these. Alternatively, if you are approaching the VAT threshold please be aware that your first VAT return must be filed under the MTD regime. If you are unsure whether you are set up for this please contact us as soon as possible.



Scottish Taxes

In 2018/19 the rates of tax differed in Scotland for the first time since the Scottish rate of income tax (SRIT) came into force from 6 April 2016. While the tax bands were already different to those for the rest of the UK, 2018/19 was the first year in which the rates were altered. This means those on the lowest incomes pay slightly less in Scotland while most on higher incomes pay more in Scotland.

Action Point

If you are a UK resident who splits their time between Scotland and the rest of the UK, you should consider your position carefully and make sure the facts reflect and support your intentions when declaring whether you are a Scottish taxpayer or not. Our Scottish MHA tax advisers are on hand to assist in defining your position.

What income does the SRIT affect?

The SRIT only affects non-savings income which includes employment, pensions, self-employment and property income. All savings and investment income remain taxable at the rates and tax bands set by the UK Government and is expected to remain so for the foreseeable future.

2019/20 tax rates in Scotland

Starter rate 19%	£0 - £2049
Basic rate 20%	£2,049 - £12,433
Intermediate rate 21%	£12,433 - £30,930
Higher rate 41%	£30,930 - £150,000
Additional rate 46%	£150,000 +

The personal allowance along with the other allowances such as savings and dividends are set by the UK Government and apply to Scottish taxpayers on the same basis as all UK taxpayers.

2020/21

Scottish Finance minister Derek Mackay stated that he would only announce the Scottish budget after the UK budget had taken place. The UK budget is due in the first hundred days from 13 December and has been set as 11 March 2020 which means the Scottish parliament could be scrambling to pass a budget before the start of the new tax year on 6 April 2020.

How to define a Scottish taxpayer?

If you live full time in Scotland, you will be a Scottish taxpayer. If you split your time between Scotland and elsewhere in the UK, you need to look closely at the definition of a Scottish taxpayer. Contrary to speculation, this is not based on the number of days in Scotland. It is based on several factors in which the number of days can play a part. The main deciding factor is the location of your home. The home or main residence is determined by where your family is based, where your main ties are such as your doctor, golf club and any other indicators that show a property is your home. This catches those living in Scotland and working in London.

Tax planning

Where individuals can choose how they take income, such as those with their own company who can choose between salaries and dividends, there is careful planning that can be done. If an individual has more than one home throughout the UK it is important to consider the position personally to ensure you are taxed on the correct rates. Gift aid and pension contributions still receive relief based on the UK rates at 20%.

Welsh Taxes

The Welsh Government was given the power to set, collect and monitor two new taxes, land transaction tax (LTT) and landfill disposals tax (LDT), from 1 April 2018. LTT largely replicates stamp duty land tax (SDLT) and LDT is the replacement for landfill tax.

Land and property transactions in Wales undertaken from 1 April 2018 will be subject to LTT rather than SDLT. The Welsh Government has announced the rates of LTT which differ from the rates of SDLT to try and better reflect the economy of Wales. LTT will essentially have the same body of rules as SDLT, including special rules for partnerships for example, together with anti-avoidance rules. If land straddles the Wales/England border, a just and reasonable apportionment should be made.

Partial income tax raising powers arrived in April 2019. The UK Government will take 10% off the three rates of UK income tax. The Welsh Government will then decide on its own rate to be added for "Welsh residents". For the 2019/20 tax year, the Welsh Government has set the Welsh rates at the same level as in England and Northern Ireland. This means that for 2019/20, the rates of income tax will essentially remain the same for Welsh taxpayers and no difference will be noticed. The Welsh Government may choose to set different rates to reflect Wales' social and economic circumstances. Whatever the rate, the UK Government will still collect the Welsh tax on behalf of the Welsh Government.

Appropriate adjustments are then due to be made to the basis for funding Wales by the UK Government.

Northern Ireland Taxes

Northern Ireland (NI) is part of the UK and therefore follows the UK tax code and the rates of income tax, corporation tax and national insurance contributions (NICs). Therefore, the tax reliefs talked about previously in the guide apply to NI. The only expected change is the NI corporation tax rate.

It was intended that from April 2018 a different rate of corporation tax would be applied to certain trading companies, reducing the rate to 12.5% Northern Ireland corporation tax (NICT). This was postponed following the suspension of the Northern Ireland Assembly, but the Government has put on record that it will be introduced in the next 2 to 3 years. With the NI Assembly having been reinstated it is expected that the NICT rate will be introduced, but no firm date had been given as the time of publication of this guide.

The Northern Ireland corporation tax rate will apply to SMEs operating in NI, where at least 75% of their employment time and costs are incurred in NI. They are not required to allocate profits between NI and the rest of the UK, as is the case for large companies. Instead, all their trading profits are charged at the NICT rate.

Importantly, an SME company must also be a NI employer to qualify for NICT, but legislation has been introduced in the Finance Bill 2017 to give an option for an SME which is not a NI employer but has a Northern Ireland regional establishment (NIRE), to elect to use the large company rules for identifying profits and losses and claim NICT.

A large company with both NI and rest of the UK activity must use rules based on profit attribution principles to allocate profits to a NI trading presence. This is a very useful incentive for inbounds and existing UK companies who wish to set up operations in NI.

Very broadly, a company with lending and investing activities; asset management; long-term insurance (mainly life insurance); reinsurance of general and long-term insurance; and profits subject to the oil and gas regime will not qualify for NICT. However, excluded companies' trades and activities (except oil and gas or long-term insurance) may make a one-off election for their back-office support functions based in NI to qualify for NICT.

Where you are a cross border worker, you must pay income tax in the country where you earn your income, but your ultimate tax responsibility lies with the country in which you are a resident.

Republic of Ireland residents working in Northern Ireland:

1. Will pay tax directly to HMRC
2. Will be required to submit an annual self-assessment return to the Irish Revenue Commissioner
3. Will be eligible for trans-border workers relief. The universal social charge (USC) will be treated as a tax, paid for the purposes of the double tax treaty (DTT) between UK and Ireland.

There are special rules for cross border civil servants living in the Republic of Ireland (RoI) but working in NI, they should, therefore, seek professional advice.

Northern Ireland residents working in the Republic of Ireland:

1. Will pay tax directly to the Irish Revenue Commissioner.
2. Will be required to submit an annual self-assessment on foreign earnings to HMRC.
3. Will be eligible for tax relief (based on Irish tax and USC paid) due to the DTT.

Republic of Ireland Taxes

The fiscal year end in the Republic of Ireland has been 31 December for a number of years now. That means that individuals' income tax returns are based on a year to 31 December. Companies and businesses (including sole traders and partnerships) may have their own accounting year end, although in most cases these are also 31 December.

A number of tax mitigation techniques can be used when coming up to an accounting year end or a tax year end. We set out some of the main ideas here.

Income tax

You may have some control over your level of taxable income in a year (for instance where you can decide appropriate salary or dividends paid to you by a company under your control). In such cases you should ensure that both you and your spouse (and perhaps also your children), where appropriate, are taking full advantage of the 20% income tax rate band (€35,300 for 2019 and 2020 for single individuals).

If you are due a refund for 2016 – for instance due to unclaimed medical expenses, pension contributions or college fees or due to overpaid PAYE on receipt of a termination payment – then the deadline for making an income tax refund claim is 31 December 2020.

If you have personal trading losses, you may be able to offset them against other sources of income for tax purposes.

Tax based investments, such as employment and investment incentive schemes (EIIS) should be made and certified as appropriate prior to the year end in order to avail of income tax relief for the year.

Capital acquisitions tax

The small gift exemption – whereby up to €3,000 can be paid to any number of beneficiaries with no capital acquisitions tax (CAT) arising on the payment – is a useful tool as part of an overall succession planning strategy. When spouses, children and grandchildren are included as part of these smart gifting arrangements, combined with utilising the maximum relief every year, significant sums can be passed on to loved ones over a period of time. Plan to make such gifts both before and after the year end.

Capital gains tax

If a transaction resulting in a large capital gain is going to occur, give some consideration to deferring it to a new tax year or accounting period.

Where you have realised chargeable gains in a tax period, consider crystallising transactions which trigger a capital gains tax loss or make negligible value claims. In order to be useful, these transactions should take place within the relevant tax year.

Business year end strategies

You should always ensure that you arrange your business affairs at the accounting year end to defer income and accelerate allowable deductions to as great an extent as possible. Where income can be reasonably put back to the new year, you should consider doing so; accelerate planned expenses such as repairs, pension payments, bonus payments and the acquisition of capital items that carry with them capital allowances (especially energy efficient machines that carry 100% capital allowances in year one). Gift vouchers up to a value of €500 can be paid to employees once a year tax efficiently.

Corporation tax

Some specific items are worth keeping in mind when looking at year end strategies:

1. Your corporation tax return for the year ended 31 December 2016 should be long submitted by now. In any event, if your company is entitled to a corporation tax refund for 2016, an amended tax return must be submitted by 31 December 2020
2. Generous R&D credits must be claimed within 12 months of the year end, and this is strictly imposed
3. There is a two-year deadline for offsetting trading losses against other income
4. Ensure that any dividends which are required to be paid to avoid a close company surcharge are paid within 18 months of the company's year end
5. If loans are made by a company to its participators and the loan is in place at the year end, a tax charge arises. Give consideration to having such loans paid off in advance of the year end – there may be strategies which allow for relatively easy ways to achieve this outcome.

The strategies outlined are some general, practical ideas to save tax or defer tax when a year end is looming. They also illustrate the significant benefits that arise from thinking about your overall tax strategy and simply sitting down with your MHA tax adviser to discuss your tax strategy. These are, of course, guidelines only, and specific advice should be sought in each case.

Action Point

Residential status is becoming increasingly more important from a tax perspective and it is essential to get local advice based on your circumstances. If you think you may be, or if you are, an Irish taxpayer and would like to know more about how this affects you personally, please get in touch with Baker Tilly in Dublin, the Baker Tilly International Republic of Ireland member firm.

To find out more about the accountancy and business advisory services
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