MHA

GUIDE

Year End Tax Planning Guide

2018/19

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National Association of Independent Accountants & Business Advisers

About Us

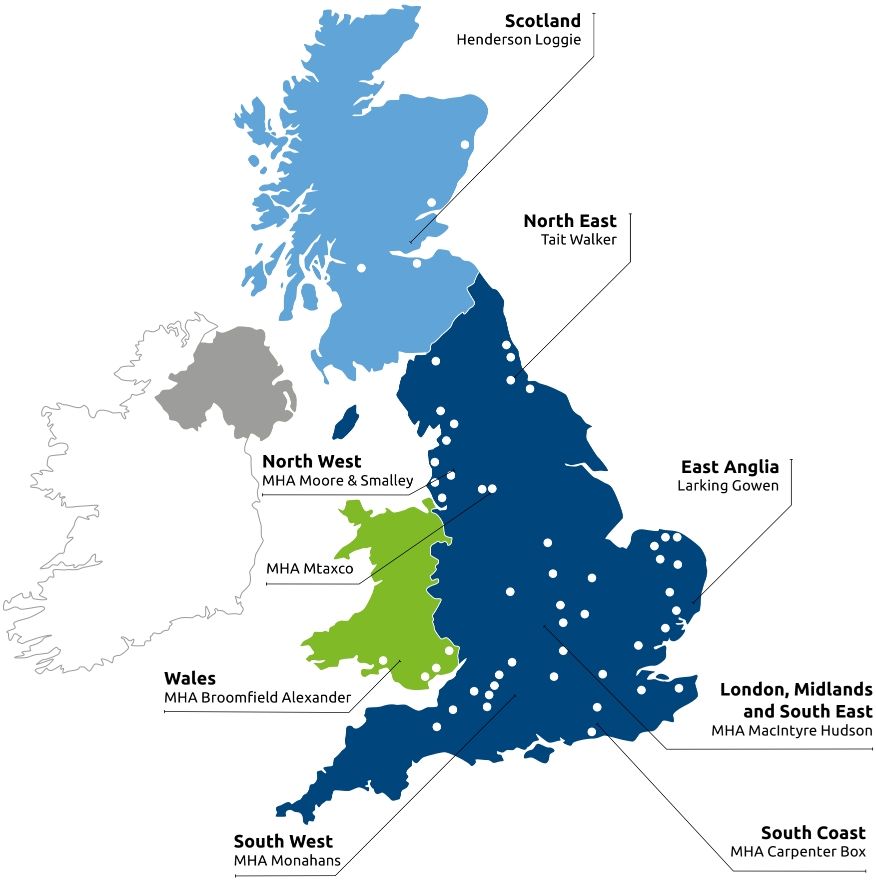
MHA is an association of progressive and respected accountancy and business advisory firms with members across England, Scotland and Wales. Our member firms provide both national expertise and local insight to their clients. MHA members assist clients with their needs wherever they are in the UK, as well as globally through our membership of Baker Tilly International, which has a network of trusted advisors covering 147 countries worldwide.

National Reach

£140m
Combined turnover

9
Member firms

50+
Offices



Baker Tilly International

An independent member of bakertilly INTERNATIONAL

Global Reach

US$3.2bn
Combined revenues

147
Territories

126
Member firms

Contents

Brexit Planning

The UK is due to leave the EU on **29 March 2019**

Businesses that sell and buy from the EU need to have contingency plans in place before 29 March 2019 and they will need to be sufficiently flexible to cope with a variety of possible unknowns.

When the UK leaves the customs union, goods moving into or out of the UK will be subject to customs checks, customs declarations and duty rates negotiated with EU or non-EU countries. In the absence of specific trade agreements with the UK's trading partners, the default position would be for the World Trade Organisation (WTO) to apply its own tariffs. UK businesses who have not prepared for the possible absence of trade agreements with the EU, in particular, could be faced with unanticipated costs, and supply chain dilemmas which may create vulnerabilities for their business within the post-Brexit landscape.

VAT

The biggest VAT impact will be the change to Intra-EU trade. At the moment, business to business transactions are zero-rated for VAT purposes. Post-Brexit, such sales will be imports into the EU and subject to EU VAT, which has a number of potential consequences.

On the plus side, there will be no more Intrastat or EC sales lists for UK businesses to complete.

Businesses will however need to consider the following points:

- Will it be necessary to consider registering for VAT in the EU country to which the goods are being imported?
- There will be increased freight agent costs of arranging imports and exports.
- Whilst UK businesses should still be able to recover VAT on overseas expenses, the system is paper based and is a more onerous and lengthy procedure.

Action Point

We pro-actively advise businesses on Brexit planning, including contract review and the most effective place to establish an EU supply chain to take advantage of best practice in the EU. We can assist with local VAT registrations and advise on the most efficient way to deal with recovering VAT on overseas expenses.

Authorised Economic Operator Status

The EU Authorised Economic Operator (AEO) scheme is a voluntary system which was introduced to create a system of 'legitimate' businesses identifiable within the international supply chain as being safe and secure. It gives quicker access to certain simplified customs procedures and in some cases the right to 'fast-track' shipments through some customs safety and security procedures. AEO status is for businesses that are actively involved in customs operations and international trade. HMRC has seen a big rise in applications with the UK's impending departure from the single market. From the point of written 'acceptance' of an application, HMRC has 120 days to make a decision regarding whether AEO certification will be awarded to the UK applicant.

Action Point

Our customs duty experts have unrivalled experience with the AEO system and can advise you on all the customs reliefs and procedures available to your business. We can help you to future-proof your business to deal with the demands of Brexit.

Income Tax

The personal allowance is reduced by £1 for every £2 of income above £100,000

The starting point in tax planning is to understand where your income is likely to fall relative to the tax thresholds. For 2018/19, the tax-free personal allowance is £11,850 and the next £34,500 is taxed at 20%. Higher rate tax of 40% is charged on income above £46,350 and additional rate tax of 45% is charged on income above £150,000.

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 £123,700. This also means that, over the income band £100,000 to £123,700, 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 tax payers £500. However, additional rate tax payers receive no allowance.

Action Point

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 tax payers. 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. Thereafter any dividends falling within the basic rate band are taxed at 7.5%, 32.5% for dividends falling within the higher rate band and 38.1% for dividends falling into the additional rate band. 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.

It is also important to remember that child benefit gets effectively withdrawn by 1% for every £100 of income earned over £50,000 (taking the highest earner in a household for these purposes), being reduced to nil once your income reaches £60,000. The effective rate of income tax within the band of £50,000 to £60,000 will depend on the greater the number of eligible children and the higher the effective tax rate. Again, where income falls within this band, mitigation by pension contributions or gift aid should be considered.

Action Point

Transferring income yielding assets to a spouse or civil partner ensures both parties have income to use up relevant allowances.

Capital Gains Tax

The annual exemption for **2018/19** is **£11,700**

Use Your Annual Exemption

The annual exemption for 2018/19 is £11,700. 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 shortly after 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

Married couples and civil partners can arrange for one partner to transfer assets to the other at a no gain and no loss basis to ensure the respective annual exemptions are fully used.

Rates of Tax

The rate of Capital Gains Tax (CGT) is 10%, where the total of taxable gains and taxable income is less than £34,500. Any excess gains are taxed at 20%. Where Entrepreneurs Relief (ER) applies, the rate on the whole gain is 10% (see next page).

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%.

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.

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 2019 in respect of 2014/15 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.

Capital Gains Tax

Continued

Capital Gains Tax is charged at **10%** where Entrepreneurs Relief applies

Entrepreneurs Relief

CGT is charged at 10% where Entrepreneurs Relief (ER) applies, subject to a lifetime 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. The 2018 Budget made several changes to the qualifying conditions for ER. For a disposal of shares on or after 29 October 2018, the rights attaching to those shares must include a 5% interest in the distributable profits and net assets (as well as 5% of the voting power and nominal value). For a disposal of assets on or after 6 April 2019, the minimum period that qualifying assets must be held is extended from one year to two years. It is easy to miss out, so early advice should be taken to ensure that the gain qualifies for relief.

Action Point

ER rules can easily be broken, especially with the recent changes announced in the 2018 Budget, so if you are disposing of an asset and ER may apply, please seek advice as soon as possible. Some of the conditions need to be met for 12 months prior to the disposal (extending to 24 months from 6 April 2019), therefore the earlier you seek advice, the greater the chance of qualifying for ER.

Determine 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.

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.

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 6 April 2019. This is because assets can pass between separated spouses without capital gains tax in the year of permanent separation. Transfers taking place on or after this deadline may attract capital gains tax.

Tax Favoured Investments

Individual Savings Accounts are an excellent investment for higher rate taxpayers

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:

- 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).
- 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.
- 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.
- Flexible ISA is a basic ISA which allows you to withdraw and replace money from your ISA.
- 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 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 2018/19, 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 2017/18 or 2018/19.

Both EIS and SEIS shares are normally exempt from capital gains tax (CGT) and 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.

Tax Favoured Investments

Continued

Shares in qualifying **Venture Capital Trusts** offer up front income tax relief at **30%**

Venture Capital Trusts

Venture Capital Trusts (VCTs) 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:

- 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.
- Dividends received on VCT shares are income tax free (including shares acquired from another holder).
- 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 rules 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.

Action Point

Prudent utilisation of the relief's 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.

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 IT at 40%/45 or through a trust where the rates applicable to trusts would be applied.

If the company receives UK dividend income from investments in shares, it will be exempt from tax however 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% FICs still benefit from indexation allowance which takes account of inflation when calculating capital gains.

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.

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.

Property Investment Business

ATED can apply when residential property with a value of at least **£500,000** is held in an 'envelope'

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 restricted as follows:

- 50% of the interest paid in 2018/19
- 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.

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 CGT or SDLT.

Annual Tax on Enveloped Dwellings

Annual Tax on Enveloped Dwellings (ATED) can apply when 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 2019, unless the 'envelope' is a charity, a return will need to be filed by 30 April 2019 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 2019. Properties must be revalued every 5 years or on certain other interim events.

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.

Structure and Buildings Allowances

It was announced in the 2018 Budget that a new tax relief will be 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. The guidance issued in the 2018 Budget states that the relief will generally 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.

Action Point

Investors in commercial property should review the detailed rules when they are available.

Inheritance Tax

£250 can be given to as many people as you wish **tax free**

Plan for the Freeze in Inheritance Tax Thresholds

The Inheritance Tax (IHT) nil rate band is currently frozen at £325,000 until 5 April 2021. As part of a person's ongoing Inheritance Tax planning, full use should be made of available exemptions. The exemptions are relatively small, but, over time the effect can be substantial:

- 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 that later year.
- Small Gifts Exemption – You can give up to £250 to as many people as you wish each tax year.
- 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.
- 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.
- 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 descendent. 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.

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 advisor 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.

Charitable Giving

If a higher rate or additional rate taxpayer makes a Gift Aid donation, further tax relief is available to the donor over and above the tax relief claimed by the charity.

A Gift Aid donation of £80 is worth £100 to the charity. A higher rate taxpayer will qualify for further tax relief of £20, so the net cost of the donation is only £60. For an additional rate taxpayer, the further tax relief is worth £25, so the net cost of the donation is only £55. You should keep a record of Gift Aid donations made in the year. Finally, please remember that if you are not a UK taxpayer, you cannot make Gift Aid donations. As an alternative to or in combination with gift aid donations, if you are in a position to leave at least 10% of your estate on death to charity, the rate of inheritance tax charged on the balance of your estate is reduced from 40% to 36%. Whilst this appears quite modest, the savings can be significant: if one takes £1m on which inheritance tax is due at 40%, the inheritance net of tax is £600,000. If £100,000 was given to charity, only £900K is left, but after tax at 36%, £576,000 is left. Thus, £100,000 is passed to charity at a cost of £24,000 to the family.

Pensions

The Lifetime Allowance is **£1.03m** for **2018/19**

Annual Allowance

You can contribute £40,000 (gross) a year into a pension scheme. 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.

The standard annual allowance (AA) of £40,000 for pension contributions (the total of personal and employer contributions) is reduced by £1 for every additional £2 of an individual's 'adjusted income' over £150,000 and can affect you if your income from all sources is over £110,000. Unused allowances from 2015/16, 2016/17 and 2017/18 can be brought forward and used in 2018/19.

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.

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 6 April 2018. Therefore, from 6 April 2018 for the tax year 2018/19, the LTA increased to £1.03m.

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 IP16 is appropriate.

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.

Pension 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 be you move into a higher rate tax bracket.

Pensions

Continued

Pension investors aged at least **55** are able to access their pension fund as a lump sum

Flexible Access From Age 55

Pension investors aged at least 55 (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 tax payers 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.

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.

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

Action Point

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.

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.

Action Point

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

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.

Pensions

Continued

If you have a **final salary pension fund**, you may still be able to take advantage of the new rules

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.

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.

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.

Key Points to Remember

- There is flexible access to pensions from age 55 (57 from 2028) and is set to remain at 10 years below State Pension age,
- Pension drawdown restrictions have been relaxed,
- Some final salary pensions can be switched to DC, but some transfers from public sector schemes are no longer allowed,
- Death benefits paid to beneficiaries before age 75 will be completely tax free,
- Death benefits paid to beneficiaries after age 75 will be subject to tax at the beneficiary/nominees marginal rate,
- 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.

Note: 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.

Corporation Tax

Corporation Tax is currently **19%**

Brexit continues to provide economic and business uncertainty and as part of planning for the future, it will be important to maximise any reliefs and claims that are available to companies. Tax has been a political hot topic in recent years, as the Government's main focus has been the prevention of tax avoidance which is deemed abusive. Most of this is now behind us and "tax" is taking a bit of a back seat. The potential disruption to the UK economy caused by Brexit is now the key issue and the Government has muted even lower corporation tax rates and less bureaucracy as a way of keeping business in the UK and attracting more.

This guide summarises some key tax and financial planning tips which should be considered prior to the end of the tax year on 5 April 2019 or, for companies, prior to their accounting period end. The planning tips set out in this guide are all statutory reliefs which can be used as Parliament intended, to assist businesses and companies to improve cash flow for growth.

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. Despite this, there are repeated warnings that Brexit could lead many businesses to move out of the UK. Corporation tax rates are currently 19% (from April 2017) and there is no longer a difference between "main" and "small company" rates of tax, or a different rate for certain types of properties such as investment holding companies, as historically was the case. Companies large and small pay the same tax rate. Subject to a change in Government and any Brexit "fallout", the rate of corporation tax is scheduled to drop to 17% from April 2020, making the UK even more competitive as a base for companies to carry out their trading activities.

The alignment of rates of corporate tax into one single rate from 1 April 2015 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. If the associated companies' total profits exceed £1.5 million, this is likely to trigger these quarterly payments. Using a company to run your business as distinct from a sole trader for example, can bring some tax savings, particularly where the company profit is retained and reinvested. The higher rate of income tax on dividends from companies makes using a company much less attractive than previously, but at the very least, a company can produce a deferral of tax.

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. In the past, such investment companies paid a higher rate of tax and we would not rule this out in the future, although there appears to be no intention to re-introduce this.

Income and Expenditure

The general tax planning strategy should normally be to defer income and make full use of all available allowances and deductions. The reduction in the main rate of corporation tax to 19% from 1 April 2017 and then 17% from 1 April 2020 increases the value of this strategy.

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. The new accounting standards FRS102 and FRS105 can affect the recognition of income and expenditure recorded in the profit and loss account on things such as investments, goodwill and financial instruments. Companies are already considering these changes and planning for a potential acceleration of tax.

Corporation Tax

Continued

Companies carrying out qualifying **research and development** activities can save Corporation Tax

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 particular review:

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.

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.

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.

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. Read in more detail on page 19.

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. Announced in the 2018 Budget, the Government has significantly increased the AIA to £1m from 1 January 2019. They have also introduced a new Structures and Buildings Allowance at 2% per annum for new commercial buildings acquired on or after 29 October 2018. Both of these need to be factored into your planning.

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 the tax department who specialise in ensuring advice is technically sound and commercially savvy.

Combating Tax Avoidance

Large companies now have to publish their 'Tax Strategy' online and consider their Country by Country reporting obligations. Companies of all sizes now need to consider how they prevent the facilitation of tax avoidance by their employees. These measures have to be considered before the end of the accounting period.

Capital Allowances

The Business Premises Renovation Allowances regime provides an initial **100%** tax allowance

Annual Investment Allowance

Following the 2018 Budget, the chancellor is increasing the Annual Investment Allowance (AIA) from £200,000 to £1m from 1 January 2019. This means that the first £1m of qualifying expenditure is available for 100% relief in the year it is incurred. However, making the best use of this relief is not as straightforward as it first appears, the allowance must be pro-rated depending upon your year end, for instance, if you have a 31 March year end, then the following is true:
In the 12 months to 31 March 2019 you would be entitled to:

- 9/12 x £200,000 = £150,000
- 3/12 x £1,000,000 = £250,000

Giving a total AIA available for utilisation of £400,000 rather than the £1m headline figure.

Action Point

If your company is incurring capital expenditure, it is important to seek specialist advice to ensure AIA is correctly utilised to ensure maximum relief is obtained. It is also important to consider the timing of asset acquisition to ensure the new relief can be fully optimised.

Structures and Buildings Allowance

Following the 2018 Budget, the chancellor announced a new relief which in essence awards 2% writing down allowance over 50 years (on a straight line basis) on the cost of construction of 'non-residential' properties.

This is not dissimilar to the Industrial Buildings Allowance which was previously in force, although this covers a wider sector of construction including retail, hotels and office blocks. This relief is effective only for buildings where contracts for the physical construction works are entered into post 29 October 2018.

Action Point

If this relief is something which may be of benefit to you, please seek advice from our Capital Allowances specialists, to see how we can assist you to maximise the relief available.

Business Premises Renovation Allowances

The Business Premises Renovation Allowances (BPRA) regime provides an initial 100% tax allowance on conversions or refurbishments of commercial property in Government approved disadvantaged wards, where those properties have been disused and then are brought back into commercial use.

Although formally abolished by 1 April 2017, businesses wishing to take advantage of BPRA should be aware that the opportunity window for claiming the relief is still available for open computational periods ending before 31 March 2017, which can be amended until 31 March 2019.

Action Point

Should you have incurred expenditure bringing a disused building in a disadvantaged area back into use in this timeframe, it is worth revisiting this expenditure to view if it qualifies for enhanced relief.

Capital Allowances

Continued

Loss making companies can surrender their identified **ECA assets** for a **cash tax credit**

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.

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 Capital Allowances – Motors & Drives

The Annual Investment Allowance (AIA) (providing 100% tax relief on capital investment in plant and machinery) remains at £200,000; expenditure above this level receives much lower rates of relief. The AIA is increasing to £1m from 1 January 2019. However, there is the opportunity for organisations such as manufacturers to enhance their entitlement to 100% First Year Allowances (FYAs), where they have installed energy efficient components into manufacturing/ production processes, which comply with the Enhanced Capital Allowances (ECA) scheme.

Under the current ECA regime, loss making companies also have the opportunity of surrendering their identified ECA assets for a cash tax credit. These reliefs are being abolished effective from April 2020, so 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.

Action Point

Should you believe you may have installed assets within your facilities which may include energy efficient motors and drives, talk to us to ensure you are fully maximising your entitlement. If this is something which is only currently a consideration, please discuss with us the benefits of doing so and we can advise how best to maximise the reliefs made available.

Enhanced Tax Reliefs

Research and Development Tax Relief can result in a tax deduction of up to **230%**

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:

- Research and Development (R&D) Tax Relief, where relief can be up to 230%.
- Patent Box and the reduced tax rate of 10% on certain profits.
- Creative Sector Tax Reliefs where relief can be up to 200%.
- 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 companies (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 12% 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.

Action Point

Companies should carefully review their activities to ensure they do not overlook the possibility of making a claim for R&D Tax Relief.

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 pre June 2016 until June 2021.

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.

Enhanced Tax Reliefs

Continued

Tax relief of up to **150%** of the costs incurred to clean up contaminated land can be claimed

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 and orchestras. The Finance Act (No 2) 2017, schedule 6, has added tax relief for the production of museum and gallery exhibitions, with effect from 1 April 2017.

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.

Action Point

Companies operating in any of these sectors should carefully review their activities to see if they can benefit from these 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 involved in any land development project should routinely add this to their list of issues to consider in order to benefit from the available tax relief.

Making Tax Digital

Affected businesses will have to keep digital records from **1 April 2019**

Making Tax Digital

Making Tax Digital (MTD) is undoubtedly the biggest change to the administration of tax since the introduction of PAYE in the first half of the last century. The Government has revised its timetable for MTD several times since it was first presented and under the latest plans:

- VAT registered businesses with taxable turnover above the VAT registration threshold (£85,000) will have to keep digital records from 1 April 2019;
- For income tax reporting obligations, the self-employed and landlords will not be asked to keep digital records or to update HMRC quarterly, until at least April 2020;
- Similarly, for corporation tax reporting obligations, implementation will not be until at least April 2020.

Making Tax Digital for VAT

For VAT return periods commencing on or after 1 April 2019, affected businesses will no longer be able to submit their VAT returns through the government gateway. Businesses will be required to use MTD-compatible software which prepares a VAT return and sends it to HMRC. To be MTD-compatible, the software must integrate with HMRC systems to send VAT returns to HMRC, what is known as API-enabled software.

How do I get my VAT-Registered Business Ready?

If the business is already using cloud-based, API-enabled software that appears on HMRC's approved list (https://www.gov.uk/government/publications/software-suppliers-supporting-making-tax-digital-for-vat), and you perform no adjustments to VAT outside of your bookkeeping system, you will already be MTD for VAT compliant and will not need to take any further action.

If, however, your business is using desktop software, bespoke software, software that is not listed on HMRC's approved list, excel spreadsheets, a combination of software and excel spreadsheets, or indeed are still maintaining records manually, these options are not compatible with MTD as the business will not be able to submit its VAT return digitally. There are various solutions to these problems and you should speak to your adviser who will be able to recommend the most suitable move forward.

Action Point

If your software supplier does not appear on HMRC's approved list, we strongly urge you to get in touch with them and request an update on whether they plan to be compliant by April 2019. If the answer is no, you should seek urgent advice from your MHA adviser on the options available to you in order to make digital submissions of VAT returns from April 2019.

Scottish Taxes

Scotland now has a five band tax system for **Income Tax**

While the Scottish rate of income tax (SRIT) came into force from 6 April 2016, it was the changes that took effect from 6 April 2018 that have set the income tax rates in Scotland apart from the rest of the UK. The Scottish rate of income tax applies to all non-savings income and has moved from the three tax bands in the rest of the UK to a five tax band system. This has been done by adding a new starter rate of 19% and a new intermediary rate of 21% either side of the 20% rate. There has also been a penny added to the higher and additional rates to make these 41% and 46%. These changes to the rates of income tax, together with changes to the thresholds at which the bands start, mean there is an increasing gap between the tax a person on the same wage will pay in Scotland compared to someone elsewhere in the UK.

In Scotland, income between £11,850-£13,850 is taxed at 19%, income between £13,850-£24,000 is taxed at 20%, income between £24,000-£43,430 is taxed at 21%, income between £43,430-£150,000 is taxed at 41% and income above £150,000 is taxed at 46%. SRIT only applies to non-savings income, so all interest, dividends and other savings income, will continue to be taxed at the rates set by Westminster for the whole of the UK. This means that a Scottish taxpayer can be paying up to eight different tax rates over the different sources of income. While non-savings income is taxed under SRIT, national insurance contributions will still be taxed at the UK rate which applies to the whole of the UK.

Under the UK tax rates, when you start to pay tax at higher rate at the 2018/19 threshold of £46,350, your NIC will drop from 12% to 2% for an employed individual. As the higher rate of 41% in Scotland kicks in at £43,430, you will still be liable for the 12% NIC for the next £2,920 of employment income. This will give a Scottish taxpayer an effective tax rate of 53% on that slice of income.Therefore, the questions are, with the added complexity, will you be paying more or less than you were before and will you be paying more or less than you would if you lived elsewhere in the UK?

A person earning annual income of £20,000 would be taxed £1,610 if they live in Scotland, but would be taxed £1,630 if they live elsewhere in the UK. A person earning annual income of £26,000 would be taxed £2,830, no matter whether they live in Scotland or elsewhere in the UK.

A person living in Scotland earning annual income higher than £26,000 would be taxed more than their equivalent living elsewhere in the UK. For example, a person earning annual income of £30,000 would be taxed £3,670 if they were living in Scotland, but would be taxed £3,630 if they were living elsewhere in the UK.

For those paying more tax under SRIT, the inevitable question is who is 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 expectation, this is not based on the number of days in Scotland. It is based on a number of factors in which the number of days can play a part. The main deciding factor is where your home is. The home or main residence is determined by where your family is based, where your main ties are, such as where your children are at school, where your doctor and dentist are based, if you are a member of a golf club or other similar club which would indicate which property is your home. This is designed to ensure those living in Scotland and working in London or elsewhere in the UK are still subject to SRIT.

The Scottish draft budget was announced on 12 December 2018. The rates of tax will remain the same for the 2019/20 tax year, however the thresholds as which these apply will change. There is an increase on the starter and basic rate bands and with the higher rate threshold remaining at £43,430, the intermediate band has reduced. These measures are due to be voted on by Parliament in February 2019. If these measures do pass, it will further widen the tax difference between a UK and a Scottish income tax payer.

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 when declaring whether you are a Scottish taxpayer or not. For those with their own company, it has always been important to look at the balance between salary and dividends and the interaction with national insurance and the balance between the tax bands and this will be especially important for those in Scotland.

Welsh Taxes

Partial income tax raising powers are due to arrive in **April 2019**

The Welsh Government has been given the power to set, collect and monitor two new taxes from 1 April 2018, Land Transaction Tax (LTT) and Landfill Disposals Tax (LDT). 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.

Action Point

If you are based in Wales or have land in Wales and anticipate a land transaction, you should consider the impact of the new LTT rates and regulations.

Partial income tax raising powers are due to arrive 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". If the Welsh Government decides to adopt 10%, the rates of income tax will essentially remain the same. 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.

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 a Welsh taxpayer and would like to know more about how this affects you personally, please get in touch with us to speak to a member of our Welsh tax team.

Republic of Ireland Taxes

The fiscal year end in the Republic of Ireland is **31 December**

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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 (€34,550 for 2018 and €35,300 for 2019 for single individuals).

If you are due a refund for 2015 – 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 2019.

If you have personal trading losses, you may be able to offset them against other sources of income for tax purposes. A claim to offset 2017 losses must be made by 31 December 2019.

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 nominal value claims. In order to be useful, these transactions should take place within the relevant tax year.

Republic of Ireland Taxes

Continued

There is a **2 year** deadline for offsetting trading losses against other income

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 tax advisor 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. As the UK member of the international network Baker Tilly International, we have colleagues in 126 member firms internationally. 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 the Republic of Ireland Baker Tilly member firm.

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:

- Your 31 December 2015 corporation tax return should be long submitted by now. In any event, if your company is entitled to a corporation tax refund for 2015, Irish Revenue will refuse it if the claim is not made by 31 December 2019.
- Generous R&D credits must be claimed within 12 months of the year end and this is strictly imposed.
- There is a two year deadline for offsetting trading losses against other income.
- 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.
- 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.

Northern Ireland Taxes

A different rate of **Corporation Tax** will be applied to certain Northern Irish trading companies

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 proposed 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% (NICT). This has now been 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.

The Northern Ireland Corporation Tax (NICT) 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 of 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 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 inbound 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 functions 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:

- Will pay tax directly to HMRC.
- Will be required to submit an annual Self-Assessment return to the Irish Revenue Commissioner.
- 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, therefore they should seek professional advice.

Northern Ireland Residents Working in the Republic of Ireland:

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

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 a Northern Irish taxpayer and would like to know more about how this affects you personally, please get in touch with the Northern Ireland Baker Tilly member firm.

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We are the UK members of the international network, Baker Tilly International. Through our membership of Baker Tilly International we are able to provide premier accounting, assurance, tax and specialist business advice worldwide, drawing on internationally recognised industry and service line experts in 147 countries.

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If you require any further information or advice regarding these topics, then please feel free to contact your local MHA member firm contact.

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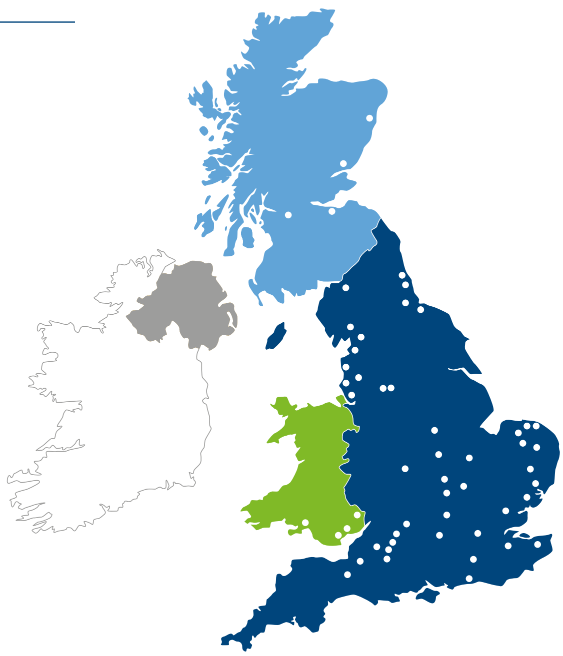

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