



**bates weston**

CHARTERED ACCOUNTANTS & BUSINESS ADVISORS



**2018-19**  
**TAX & FINANCIAL**  
**PLANNING**

# INTRODUCTION

## ACCEPTABLE TAX PLANNING

Tax is a necessary part of your financial life. Without tax the Government could not provide services such as health, education, social care and the security of the population. However, tax is complicated, and the level of tax payable will vary according to the nature of the underlying transactions. You have choices to make around the structure of your business and investments, and those choices will have tax implications.

The Government provides tax reliefs to nudge you to invest or spend in certain ways and imposes tax penalties to discourage bad behaviour. Using tax reliefs as they are intended is the fiscal equivalent of driving as a responsible citizen, but there are penalty potholes in the road which can damage your fiscal wellbeing if you drive without due care and attention.

### How to plan

The UK tax system is constantly changing, so what saves money in one year could attract higher tax rates in a later period. There are opportunities to save money, but you need to keep your financial position under regular review. The best way to minimise the tax you pay is to be fully aware of the choices you can make before you make them, so planning ahead and taking advice is essential.

This short booklet highlights some common areas where you and your family can make tax-related choices, but there is nothing exotic here: it is all in line with the tax law.

We have tried to explain the ideas in brief and without jargon, but everyone's financial circumstances are different, so we should talk in detail about any significant changes in direction you want to take. We can help you navigate the most efficient route for your financial journey.

### When to plan

It's a good idea to have a regular review of your tax affairs – maybe once a year. This could be:

- when you are gathering the information to file your tax return
- two or three months before the end of the tax year (5 April)
- in the last quarter of your accounting period, if you run a business

Give yourself enough time to do something before the crucial date. If you leave planning to the last minute, you may not have enough time to put the plan into action.

# DEADLINES

## MAIN 2018/19 DEADLINES

HMRC charges interest and penalties if you miss due dates. A key to avoiding penalties and interest is to have a good diary that makes sure you are never late.

**19th of each month** – employers pay PAYE and send CIS returns to avoid penalties (PAYE by electronic funds transfer can arrive by 22nd of each month).

**19 April 2018** – employers file final Employer Payment Summary (EPS) for 2017/18 if last Full Payment Submission (FPS) was not 'final'.

**19 May 2018** – employers file Earlier Year Update (EYU) to correct any errors in Real Time Information (RTI) final submissions for 2017/18.

**31 May 2018** – employers give 2017/18 P60 to employees.

**6 July 2018** – employers give P11D forms to employees and HMRC. Payment of Class 1A NIC due by 19 July 2017.

**31 July 2018** – second payment on account of 2017/18 Income Tax and NIC due under Self Assessment (SA).

**1 August 2018** – if 2016/17 self assessment return has still not been filed, there will already be £1,000 in penalties, and 1 August adds another £300, or 5% of unpaid tax if more.

**1 October 2018** – Corporation Tax payment due for smaller companies with 31 December 2017 accounting date.

**5 October 2018** – deadline for notifying HMRC if not within the self assessment system and Income Tax or Capital Gains Tax (CGT) is due for 2017/18.

**31 October 2018** – last day to file paper 2017/18 SA tax return.

**31 December 2018** – Corporation Tax filing deadline for companies with 31 December 2017 accounting date.

**1 January 2019** – Corporation Tax payment due for smaller companies with 31 March 2018 accounting date.

**31 January 2019** – 2017/18 SA return must be filed online to avoid penalties; balance of tax for 2017/18 and first payment on account for 2018/19 due.

**3 March 2019** – if 2017/18 balancing payment (Income Tax and CGT) not settled, a late payment penalty will apply.

**31 March 2019** – Corporation Tax filing deadline for companies with 31 March 2018 accounting date.

**1 April 2019** – VAT registered traders with turnover of £85,000 are required to use MTD-compatible software to keep VAT records and to submit VAT returns.

**5 April 2019** – employers file final FPS under RTI or by last pay day before this date.



## This booklet

This booklet is arranged in sections to help you find information that is relevant to you. The ideas here are necessarily general principles – if you find something that you think might apply, we will be pleased to look at your particular circumstances and work out what you could save and what you would need to do to achieve the saving. Then you can take an informed decision about whether to go ahead.

## Contents

<b>Home and work</b>	– Tax and the family	4
	– Employment	6
<b>Business tax</b>	– Starting a business	8
	– Unincorporated business	10
	– Running a company	12
	– Tax Reporting	14
	– VAT	16
	– Exiting a business	18
<b>Tax and money</b>	– Savings and investment	20
	– Giving it away	23
	– Property	24
	– Planning for retirement	26
	– Estate planning	28
	– Paperwork	30
<b>Tax exile</b>	– Residence	32

# HOME AND WORK TAX AND THE FAMILY

## Marginal rates

The first step towards paying less Income Tax, National Insurance Contributions (NIC) and Capital Gains Tax (CGT) is to understand how much of these taxes you are likely to pay and why. Your total tax bill depends on:

- how much total income you have in the year
- the mixture of categories of income, such as salary, interest and dividends
- how you choose to set off your personal allowance

In 2018/19, each category of income and gains is subject to a different set of tax rates and allowances. This makes the task of calculating how much tax you are due to pay similar to solving a Rubik's Cube – even HMRC get it wrong occasionally.

If you only receive earned income, profits or rents, and you are not a Scottish taxpayer, the Income Tax rates you will pay change at these points:

- £11,850 – 20% rate starts (basic rate)
- £46,350 – 40% rate starts (higher rate)
- £100,000 – 60% effective rate from withdrawal of personal allowance
- £123,700 – 40% again
- ❖ £150,000 – 45% rate starts

For Scottish taxpayers the Income Tax rates change at these points:

- £11,850 – 19% rate starts
- £13,850 – 20% rate starts
- £24,000 – 21% rate starts
- £43,430 – 41% rate starts
- £100,000 – 61.5% effective rate from withdrawal of personal allowance
- £123,700 – 41% again
- £150,000 – 46% rate starts

All of the rates below apply to all taxpayers in the UK, subject to income levels. National Insurance (NIC) is charged at 12% on salary (or at 9% on business profits) between £8,424 and £46,350, and at 2% above that. Dividend income is taxed on the amount received within the UK rate bands at rates of 7.5%, 32.5% or 38.1%, but the first £2,000 of dividends (£5,000 for 2017/18) received per tax year is taxed at 0%.

Interest received is taxed at 0% on the first £1,000 received by a basic rate taxpayer in the tax year, and at 0% on the first £500 received by a higher rate taxpayer per tax year. If you receive more than £1,000 or £500 of interest, the excess is taxed at 20% or 40%, including for Scottish taxpayers. If you pay tax at the top rate of tax, all of the interest you receive is taxed at 45%. If you receive less than £16,850 of employment income or business profits and also receive interest, up to £5,000 of the interest is taxed at 0%.

CGT is not charged on the first £11,700 of gains. Gains above that threshold are taxed at 10% until your total of taxable income and gains (after tax free allowances) exceeds £34,500, and are taxed at 20% above that. A surcharge of 8% applies to gains arising from residential property.

# HOME AND WORK TAX AND THE FAMILY

Part or all of any Child Benefit received by the family is clawed back where the highest earner has income over £50,000. This gives rise to a significantly higher marginal rate of tax on income between £50,000 and £60,000.

## Key planning questions

To identify opportunities to save tax you need to know what the marginal rates of tax are for you and for other family members.

- How much income did you have last year?
- Do you expect significant changes in the mix or level of income this year?
- Do you expect significant changes next year?

## Key planning points

If you are close to one of the thresholds, moving income or gains can save tax:

- from one person to another (e.g. between spouses or civil partners)
- from one year to another (e.g. from 2018/19 to 2019/20)

**Example:** Nina and Jim live in England and are married to each other. Nina expects to receive a salary of £70,000 and £20,000 of dividends, which are taxed at 0% on the first £2,000 and 32.5% on £18,000. She transfers some of her shares to Jim, so he receives the £18,000 of dividend income. Jim has a salary of £20,000 (paying 20% tax) in 2018/19, so he pays 0% on £2,000 of dividends and at 7.5% tax on the balance. This can save tax of £4,650 ( $25\% \times £16,000 + 32.5\% \times £2,000$ ).

Income and gains can be moved by:

- transferring to a spouse or civil partner investments which generate income, or which stand at a gain, as such transfers are free from Capital Gains Tax. This is the case whether the asset is gifted or paid for by the recipient spouse
- taking a spouse into employment or partnership
- advancing or delaying transactions around 5 April

## Catches

HMRC won't accept:

- transfer of income or capital to your own under-18 child (unless the income is less than £100 a year or in a Child Trust Fund or Junior ISA)
- transfer of income to a spouse or civil partner, unless it comes from an outright gift of a capital asset

If you want to transfer a gain, you have to make a genuine gift of the asset which will generate the gain, to your spouse or civil partner, before it is sold. If you give something standing at a gain to anyone other than your spouse or civil partner, you are usually charged tax on the gain as if you had sold the asset at its full market value.

## Special cases

If you are the beneficiary or the settlor of a trust, it's important to take advice on tax. Marriage, separation and divorce are occasions which can benefit from specific tax advice.

## 6 HOME AND WORK EMPLOYMENT

### Employment tax

Employees pay Income Tax on everything they earn from doing their job, including salary paid in money and benefits (such as a company car) provided by their employer.

Employees also pay Class 1 NIC on salary, but those aged under 21 or apprentices aged under 25 pay a zero rate on salary up to £46,350. Those who have reached state pension age are exempt from NIC. Employers pay NIC, and in some cases an apprenticeship levy, on their employees' remuneration, which increases the cost of employing people (but see page 9 for the Employment Allowance).

Income Tax and NIC on salary are paid through Pay As You Earn (PAYE). The amount deducted depends on a tax code, which allocates your personal allowance against different types of income. If your code is wrong, you can get it changed through your personal tax account on gov.uk. An incorrect code can lead to you being asked to pay some more tax after the end of the year, either through your SA tax return, a simple assessment, or a P800 form.

A limited range of benefits are tax and NIC-free, including:

- pension contributions up to £40,000 a year
- provision of one mobile phone, even for private calls
- loan of a bicycle if you cycle to work
- certain health checks for employees and their families
- annual party costing up to £150 per person attending
- subsidised meals in a staff canteen available to all

If you sacrifice some of your salary in order to receive a benefit, you may be taxed on the salary you gave up instead of the taxable value of the benefit. Pension contributions, cycle to work schemes, and subsidised childcare are not affected by these salary sacrifice rules.

Some benefits are taxed according to specific rules, rather than on the actual amount it costs the employer to provide the benefit. Under these rules, you may be taxed on more than the benefit is worth. The main ones are:

- provision of a company car or van
- fuel for private motoring in a company vehicle
- loan of assets without transferring ownership
- loans of money exceeding £10,000

Employees can receive tax free shares, or options to acquire shares, in their employer company through a registered share scheme.

### Key planning questions

To identify the opportunity to save tax you need to know how you are being taxed on your employment package.

- What is your cash salary, including bonuses?
- What benefits do you receive and how are they taxed?



### **Key planning points**

PAYE coding notices are often wrong. It's worth checking that you understand and agree with yours, otherwise you'll pay too much tax or too little, and will have to sort it out later.

If you have a choice of remuneration packages, be aware of how different parts are taxed. Consider whether a benefit is worth the tax you pay on it – for example, the tax on 'free fuel for private motoring' might be more than the actual cost of the fuel if you bought it yourself.

If your employer offers a share scheme, it's worth considering the tax advantages – although you should also take investment advice before buying shares.

### **Catches**

If there are expenses which you are required to incur in carrying out your duties – such as providing your own protective clothing – you may be able to reclaim those costs from your employer, or claim a tax deduction for the cost from HMRC. You should first check what you can claim, as the rules are very restrictive. For example, you can't claim for the cost of commuting from home to your normal place of work.

### **Special cases**

If you have two employments at the same time, you may pay too much NIC through the normal PAYE system – both will charge the 12% rate on pay between £8,424 and £46,350 - but if your total pay is more than £46,350, you are only supposed to pay 2% on the excess. It's possible to make a claim to pay NIC at only 2% under PAYE on one employment and settle up at the end of the year when all the figures are known.



# BUSINESS TAX

## STARTING A BUSINESS

### **Making the change**

If you are an employee, your employer sorts out most of your tax affairs for you through PAYE. Many employees don't have to fill in a self assessment tax return and don't deal directly with HMRC.

If you start your own business, you have to pay your tax directly, and the paperwork can be daunting. The decisions you make at the start of your business can significantly affect the amount of tax you owe, and neglecting a key form will land you with penalties.

### **Business structure**

Your first decision is the legal form of your trade – unincorporated sole trade or partnership, Limited Liability Partnership (LLP) or Limited Company (Ltd)? The difference in the tax bills can be significant, particularly for a property letting business (see page 24). An LLP and Ltd also give you some protection from your creditors if the business fails.

If you expect the business to make a loss at first, starting out as unincorporated or an LLP will give you the maximum flexibility to set off those losses against your other income. However, such loss set-offs are capped at the greater of £50,000 or 25% of your income for any year. Profits are charged on you as they arise, to both Income Tax and Class 4 NIC. You also have to pay flat rate Class 2 NIC of about £153 a year.

If you operate as a company, you can't set business losses against your other income. The company pays Corporation Tax on profits at 19%. The tax on the company's profits is lower than the combined rate of Income Tax and NIC, which would be 47% (48% for Scottish taxpayers) above £150,000 in an unincorporated business. Instead, you pay Income Tax and NIC when you take the money out of the company (see page 12).

### **Accounting date**

Income Tax is charged according to the tax year, but a business – incorporated or not – can choose its own accounting period-end date. The choice of accounting date can make a difference if your trade is seasonal. If you fix your accounting year so it falls before the start of your busy period, you may delay paying tax on those profits for 12 months.

### **Key planning questions**

- Are there non-tax reasons for choosing a particular form of business structure?
- What is the best year-end?
- Are you likely to make losses to start with, or do you anticipate profits over £46,350 (£43,430 in Scotland)?



## Key planning points

If you are likely to make losses to start with and have other income, you will pay less tax if you start as an unincorporated business.

If there are two or more people involved in the business, the next logical step would be to form a partnership.

You can incorporate the business once you start to make profits and would benefit from lower Corporate Tax rates, but the tax savings from running a small company are not as significant as they once were. On profits of less than £30,000 the tax savings will be less than £800, and the costs of preparing and filing the company accounts will eat into those savings.

A sole trader in England, Wales or Northern Ireland making a profit of £50,000 will pay about £12,000 in Income Tax and NIC. When the trade is operated through a company the total tax payable by the business owner and company will depend on how any profit is extracted. If the owner takes a salary of £8,424 and the balance as dividends, the total tax paid would be about £1,980 lower than the sole trader. The tax savings will be bigger for a Scottish taxpayer.

## Catches

You should tell HMRC when you have started a new business.

As an employee, your tax and NIC is normally deducted under PAYE before you receive your pay. When you run a business, you are not only responsible for making online returns to HMRC, you must also pay the tax bill when it falls due. You will generally pay tax later than an employee does, but you will still have to pay, so you need to plan for that bill and not spend all the money as you make it.

## NIC Employment Allowance

Most employers can claim an 'employment allowance', worth up to £3,000 per year, to set against their liability to employer's NIC. Only one allowance is given per group of companies, and some businesses can't claim, e.g. NHS family doctors. Also, a single-person company can't claim the employment allowance. If you claimed the allowance for 2017/18 and are eligible to claim for 2018/19, all you need do is check that your payroll software has carried forward the claim correctly. Otherwise just tick a box on the first Employer Payment Summary (EPS) you submit for the year.

# BUSINESS TAX

## UNINCORPORATED BUSINESS

### Sole trade or partnership

A sole trader or partner in a partnership is charged tax and NIC on the business profits as they arise. This means that:

- if you have a good year, you will pay a lot of tax, but you can't easily shift your profits into a different year for Income Tax purposes
- the money of the business belongs to the owners of the business without any further tax to pay when it is drawn out

By contrast, if you trade through a company, the company will pay tax on its profits nine months after the year end, and you may be able to delay paying a dividend to yourself until a tax year when your personal tax rate is lower.

Expenses are deducted from your taxable profits if they are incurred 'wholly and exclusively' for the business. If a revenue expense has a mixed purpose (i.e. both business and personal), you may be able to apportion the cost, but you might not be allowed to deduct any of it.

This doesn't apply to plant and equipment you use in the trade. If you have an asset that is partly used for business and partly for private purposes, you can claim a proportion of the tax allowances that relate to the business use.

### Key planning questions

If you can predict how much money you are likely to make, you can forecast what your marginal tax rate will be. A good business plan is an aid to running the business and can also help you pay less tax on the results.

### Key planning points

If your marginal tax rate for this period will be high, consider:

- advancing capital expenditure
- advancing revenue expenditure, such as bonus payments to staff or advertising
- making pension contributions up to the permitted maximum

If you expect to have a lower marginal tax rate in the current year than in the next, take the opposite action – defer expenditure and pension contributions, in order to get a better rate of relief.



A person running a self employed business may be able to employ family members, who might not otherwise earn enough to use their personal allowances and lower tax rate bands. This will allow more of the business income to be taxed at lower rates.

It may also be possible to take family members into partnership to spread income, but the potential exposure to the liabilities of the business also needs to be taken into account.

### **Catches**

It's important to put sufficient funds aside as you go along to pay your tax bills – or agree a budget plan with HMRC to make regular payments. If your profits are likely to be up to about £50,000 in a full year, 24% (26% in Scotland) should cover the tax and NIC. If you earn more than that, you'll need to set aside 42% (43% in Scotland) of the excess over £50,000, in addition to the tax due on the first £50,000.

If your business involves providing your own services to clients, HMRC might argue that you should be taxed as if you were employed by them, which would mean being subject to PAYE and Class 1 NIC. This particularly applies where your client is in the public sector. You must consider whether you are genuinely an independent business providing services to clients, or if you operate like an employee who is engaged to work within the client organisation.

### **Special cases**

Expenditure on equipment that falls within the Annual Investment Allowance (AIA) is allowed in full and writing down allowances of 18% or 8% are given on any excess. The AIA limit is currently £200,000, but it doesn't cover cars.

An individual can receive up to £1,000 of trading income tax free, but if the total received is higher it should be declared to HMRC.

# BUSINESS TAX

## RUNNING A COMPANY

### Company taxation

A limited company exists separately from its owners and managers. It makes the profit of the business and pays Corporation Tax on it. If it pays some of that profit out as salaries to directors or dividends to shareholders, those individuals will pay Income Tax on those payments at that time.

In a small company, the shareholders and directors are usually the same people. This means that there are a number of choices:

- keep the money in the company, and pay Corporation Tax at lower rates than Income Tax
- pay the money out as salary, which reduces the business profit, saving Corporation Tax, but Income Tax and Class 1 NIC are usually higher
- pay the money out as dividends, which come out of profits after calculating Corporation Tax, but the shareholders will pay no NIC and less Income Tax than on salaries

If the shareholders are also the directors, they will be employees who are in a position to choose their own remuneration package, within the limits of what the company can pay. It's also possible to choose which tax year to pay salary in, if your marginal tax rates in adjacent years are different.

### Key planning questions

The main financial reason for running a business is to enjoy the profits, so you will want to extract funds from your company at some point. When and how you do this can make a big difference to how much you are able to spend. Consider:

- how much profit are you likely to make before paying yourself, and what tax will the company pay on those profits?
- how much do you need for all your personal expenses, and what level of remuneration do you need to be comfortable?

If the second number is smaller than the first, you may be able to leave some money in the company for the time being, or pay it into a pension scheme (see page 26). This will delay paying the Income Tax until you choose to extract those funds from the company or pension.

### Key planning points

The lowest tax and NIC charges are usually achieved by paying a combination of salary and dividends so that:

- salary uses up the owner's personal allowance (£11,850, less any other income from outside the company)
- as much as possible of the rest is paid as dividends, which do not carry NIC

A salary of between £6,032 and £8,424 per year will protect employee's entitlement to the State pension, but the employee pays no NIC. If a director takes salary and then pays pension contributions

out of it, this creates an unnecessary NIC cost – up to 25.8% of the salary payment when both employee and employer contributions are considered. It's much cheaper for the company to make the pension contribution directly.

It's worth working out whether it's better for the company to own a car, which is taxed on the director as a benefit, or for the director to own a car and claim tax free mileage allowances for business use (45p per mile for up to 10,000 miles a year and 25p thereafter). In general, cars with high CO<sub>2</sub> ratings are heavily taxed, while cars with low emissions are taxed at comparatively low rates.

## Catches

A company pays tax on its profits at 19% after the end of the year, so it's important to keep enough cash to meet the liability.

Because the company and the director/shareholders are separate people for tax, any payments out of the company have to be correctly declared. The money isn't 'yours' just because the company has earned it, as it is with a self employed business. If the company pays salary, it will have to account for PAYE.

The company should only pay a dividend when the accounts show there is available profit after tax to cover it. Minutes and dividend vouchers should be prepared to show that the directors considered and approved the payment of a dividend.

If the company makes other payments to a director, those could be treated as loans, which can have unpleasant tax consequences. A disciplined approach to the directors' accounts can avoid a great deal of argument with HMRC.

If a company sells the 'personal services' of its owner, HMRC may try to apply the 'IR35' rules. If you are working through a company in circumstances in which you might otherwise be regarded as your client's employee, it's important to take tax advice.

## Special cases

Companies can take advantage of a number of special tax reliefs. For example, a company which undertakes Research and Development (R&D) projects can claim a deduction of 230% of certain R&D costs and claim a payable tax credit if it makes a loss after that deduction. There is a 10% tax rate for companies which receive income from patented products, known as the 'patent box', and special reliefs for creative industries including TV and video game production.

Claiming tax relief for R&D expenditure or patent income can be complicated. It's worth taking tax advice.

# BUSINESS TAX TAX REPORTING

## Heavy duty

No-one runs a business in order to report to HMRC, but it's a necessary part of business life. HMRC will impose penalties if you fail to send reports online punctually and pay the tax by the due date. This is something you need to take into account when planning your business. You need to set aside enough time for the tax reporting, and if you can't do it yourself, ask someone else to help. Paying for professional support is likely to be cheaper and less stressful than falling behind and getting into trouble with HMRC.

## The basic records

All businesses have to keep adequate records of their transactions from day to day – income and expenditure, receipts and payments. These records are needed in order to prepare accurate reports of profit and loss, which must be submitted to HMRC.

A sole trader includes his profit/loss report on the self employment pages of the Income Tax return. A partnership or LLP has to file its own separate tax return, in addition to the partners including their shares of profit on their own tax returns. A company or LLP has to file accounts with Companies House (nine months after the accounting date for a private company) and a company must file an electronic Corporation Tax return with HMRC (12 months after the accounting date).

## Payroll

Details of the employees of the business and their pay must be sent online to HMRC on or before the date those employees are paid. You also need to report taxable benefits provided in respect of each individual by 6 July following the end of the tax year. HMRC provides some free software, but that can only be used for payrolls with up to nine employees. Payroll is something many small businesses get outside help with.

## VAT

VAT registered businesses must file VAT returns, generally quarterly. Traders with turnover up to £1.35m can file annually, and some benefit from filing monthly. The returns have to be filed online within seven days of the end of the month following the period to which they relate – e.g. by 7 June for the period to 30 April.

Under the 'making tax digital' (MTD) regime, VAT registered businesses with turnover of £85,000 or more will be required to use accounting software to keep their records and submit their VAT returns. These MTD requirements will start from VAT periods beginning on or after 1 April 2019. MTD reporting for Income Tax and Corporation Tax will start no earlier than April 2020.

A business that sells digital services to non-business customers in other EU countries has to charge VAT using the rates and rules for the country where each of those customers belongs. The business must either register for VAT in each EU country it sells digital services to, or use the VAT MOSS system in the UK. A VAT-MOSS return must be submitted quarterly by 20 April, July, October and January. The VAT due under VAT-MOSS must also be paid by the same date.



## Paying

The PAYE deductions made in the tax month to 5 April must be paid to HMRC by 22 April (19 April if paid by cheque), and so on for subsequent months.

VAT has to be paid electronically by the same deadline as for the filing of the return – seven days after the end of the month following the VAT period. You have to allow time for the electronic transfer to clear by this date, and if the 7th day is on a weekend, HMRC must have the money by the previous Friday (unless you use same-day faster payments). If you set up a direct debit to pay the VAT due, you don't have to worry about initiating the payment on time, as HMRC will collect the VAT due ten days after the end of the month following the VAT period.

Corporation Tax for most companies must be paid within nine months and one day of the accounting date. Very large companies must pay Corporation Tax by quarterly instalments.

## Penalties

Late filing of any returns and late payment of liabilities both incur significant penalties, which generally increase if multiple returns are late or if one return is outstanding for a long time. VAT and PAYE penalties are not charged for the first 'offence' – a warning letter or email is issued instead. If you receive such a message from HMRC you must take it very seriously – find out what has gone wrong and make sure that it does not happen again. Usually after a year's perfect compliance the warning lapses, but further failures in that year will cost more and more money.

## Special cases

If you start a new sole trade, you should tell HMRC that you'll need a self assessment tax return by 5 October following the tax year. If you are already within self assessment, you'll need to notify HMRC by 31 January following the end of the tax year.

If you start a company, HMRC will usually ask you if you have begun to trade. You'll need to inform HMRC within three months of the trade starting.

If you start to employ people, whether you operate as a company or as an unincorporated business, you will need to notify HMRC that you must account for PAYE.

A trader who sells products or services in another EU country may have to register for VAT in that country whatever its value of sales. You really should take tax advice before making international sales.



## BUSINESS TAX

### VAT

Do it online



Log in



Register (new users)



Online Services info

Quick links

Tools



Individuals & employers

Tax credits

Child Benefit

Income Tax

National Insurance

Self Assessment

Coming to the UK

Pensioners

Self-employed

More topics

### A hidden tax?

VAT does not appear in the profit and loss account of a business – it is supposed to be a tax that the business collects from customers and passes on to HMRC, rather than being charged on the business itself. However, it is a cost in several ways:

- the administration of the tax is time-consuming
- there are severe penalties for making mistakes with some very complicated and unpredictable rules, and also for failing to keep up to date with the administration
- if you sell to the public, they can't recover any VAT – so they regard the gross price you charge as their cost
- if you fail to account for VAT when you should have done, you get into trouble with HMRC

### Key planning questions

It's important to understand how VAT applies to your business. The standard rate of VAT is 20%, but you can recover VAT charged on your costs. Certain other types of sale are:

- exempt, such as rents charged on residential properties. You don't charge VAT to your customers, but you can't recover VAT on your costs
- zero-rated, such as most food. You don't charge VAT, but you can recover it on your costs
- lower-rated, such as children's car seats. You charge VAT at 5% instead of 20%, but you can still recover VAT on your costs

If you charge VAT on something that is exempt or zero-rated, this is a mistake. You will be charging your customers too much and paying this extra amount over to HMRC, when instead you might have been able to charge the extra in your sales price to increase profit, or not charge it at all, making your prices more competitive. You can find out about the appropriate VAT rates on [www.gov.uk/vat-rates](http://www.gov.uk/vat-rates) or by asking us.

If some of your sales are exempt, you may not be able to recover all of the VAT on your expenses. It may be possible to negotiate a better recovery than you enjoy using the 'standard method of partial exemption', so it's important to seek advice on this matter.

VAT may be 'blocked', meaning it can't be reclaimed on certain expenses – in particular, on the purchase of a car available for private use (50% recovery is allowed on leasing) and on the cost of business entertainment. It's important to be able to identify any 'blocked' expenditure among your costs.

### Key planning points

Check that you are taking full advantage of any available exemptions, zero-rating or lower-rating reliefs on your sales.

Claim the correct VAT on your costs and be sure to obtain and retain valid VAT invoices to support your deductions.

Make sure that the VAT return is prepared and filed on time, and any VAT due is paid no later than the 7th calendar day of the month following the return period (e.g. 7 June for the period to 30 April).

### Catches

There are many catches for the unwary in VAT. Particularly tricky areas involve the purchase, letting and sale of property – the rules are very complex and the monetary amounts are often large.

If you are thinking of buying commercial property, ask whether the cost will carry VAT. If it will, you should investigate whether that VAT can be deducted by your business. If you intend to use the property in the business, the VAT deduction will depend on whether your general sales are taxable or exempt. If you are going to rent the property out, it will probably be necessary to opt to tax (i.e. apply VAT to) the building. Professional advice will help you steer clear of the pitfalls.

### Special cases

A business which makes VATable sales of less than £85,000 a year does not have to register for VAT (but may have to register for VAT-MOSS for international sales). If you are not VAT-registered but are close to the limit, you are supposed to monitor your last 12 months' turnover every month – not just when you prepare your annual accounts. If you miss the VAT registration deadline you may incur a penalty for late VAT registration before you knew it was required.

Smaller businesses with turnover up to £150,000 can take advantage of the flat rate scheme, which can simplify VAT accounting, but restrictions apply for businesses that buy few goods. Businesses with turnover up to £1.35m can use cash accounting to ease cash flow, and the annual accounting scheme to simplify reporting to HMRC.

# BUSINESS TAX

## EXITING A BUSINESS

### Exit strategy

To maximise the return from your business, it's important to consider what will happen when you no longer want to run it. If the business is entirely personal to you, the income may simply stop when you cease to work, and there will be no continuing value in the business. However, you may have built something up that you can:

- pass on to the next generation in your family
- sell on to people who work in the business
- sell to an outsider

Even if the business will simply stop, you need to know how the final amounts will be taxed. If the business has assets which you take over, there may be a tax charge on their value.

### Key planning questions

If you believe that your business contains something you will be able to sell, you will need to consider how to achieve the best result.

Key decisions include:

- whether you will dispose of the whole of the business at once, or only part of it
- whether you will dispose of shares in the company that runs the business, or have the company dispose of the assets it owns
- the timing of transactions

You could bring in or promote someone to manage the business while you still own it. The next step would be to give the manager an option to purchase the business at a good price.

If the manager excels, you will continue to derive an income from the business and have your exit ready-made when the option comes up.

However, you must have confidence in your managers. If they are not as good as you at running the business, you may see the value of your capital plummet – and you will probably have to get involved again to sort the situation out.

### Key planning points

If you sell a trading business that you have run as sole trader or partner, or shares in a trading company in which you have worked and also owned at least 5% of the shares, you could be eligible for Entrepreneurs' Relief. This means that you will pay just 10% CGT on gains of up to £10m, rather than up to 20% chargeable on other gains.

You may wish to defer paying the CGT by reinvesting in other assets which qualify for a 'holdover' relief.

- If you sell land, buildings or goodwill that have been used in your trade, you can invest in other trading property – for example, a bed and breakfast business or hotel (for full deferral, you need to invest the whole proceeds of the sale)
- Any other gain can be deferred by investing in a company which qualifies for Enterprise Investment Scheme (EIS) relief, or in a Social Enterprise (subject to investment limits)

If you sell an unincorporated business, some of the proceeds may be charged as trading profits – for example, if you sell the stock at more than cost, or the fixed assets at above their tax written down value. In that case, it may be worth considering paying extra pension contributions to offset the higher Income Tax charges that will otherwise apply. You can generally pay contributions of up to £40,000, and can also use any unused balance of pension allowance from the previous three years (see page 26 for details).

### Catches

While you own a business, its value is likely to be completely protected from Inheritance Tax (IHT). There is a 100% IHT relief for trading businesses and shares in trading companies. If you sell the business for cash, suddenly your estate is much more exposed to IHT. That may be unavoidable if you don't want to put the money into another business, but it's important to consider what you can do to mitigate the liability. A company whose only activity is letting property can't benefit from IHT or CGT reliefs.

When you sell your company, you may cease employment at the same time. It's tempting to take advantage of the well-known £30,000 'exemption' for employment termination payments, but HMRC may not accept that this relief applies for an owner/director. If the termination payment is part of the deal for selling your shares rather than a genuine ex-gratia lump sum, tax may be due on that payment.

### Special cases

If the business of your company will cease when you stop work, the company will normally be dissolved at that point. Where the company has reserves, it can pay dividends which are subject to income tax at 7.5%, 32.5% or 38.1%, although the first £2,000 of dividend income per person per year is taxed at 0%. Alternatively, you can dissolve a company with up to £25,000 of assets and pay CGT rather than Income Tax. This allows you £11,700 of tax free gains and the balance taxed at 10% or 20%.

# TAX AND MONEY

## SAVINGS AND INVESTMENT

### Tax advantages?

Many investments claim to have tax advantages – but tax breaks alone don't turn a poor investment into a good one. A tax free return only saves tax if there is a return in the first place, so it's important to take proper investment advice before taking investment decisions. But it's also important to understand the tax treatment of what you put your money into, and how much any advertised tax breaks are worth.

The main tax advantages available for different types of investment are:

- no tax on income and/or gains
- lower rate of tax on income and/or gains
- tax deduction for investment in the product
- deferral of tax for investment in the product

### Tax free income or gains


One of the most common tax free investment products is the Individual Savings Account (ISA). The maximum investment for 2018/19 is £20,000, all of which can be in cash. For small investments, the tax break is not worth much – a deposit of £5,000 might earn £150 a year, but interest from any savings account is tax free up to £1,000 for a basic rate taxpayer and up to £500 is tax free for a higher rate taxpayer. Thus, the tax advantages of an ISA are not necessarily worthwhile. However, someone who has built up a large fund by investing as much as possible for many years will enjoy a substantial tax shelter.

Where the Government adds a 25% bonus to ISA savings, such as in the Help-to-Buy ISA or the Lifetime ISA, the investment product becomes far more attractive. However, only certain individuals are permitted to open those types of ISAs, which have lower investment limits and use up part of the £20,000 ISA maximum.

### Lowering the tax rate

For many investments, capital gains are taxed at lower rates than income – 10% against 19% to 21% for basic rate taxpayers, 20% against 40% to 46% for other taxpayers. But most taxpayers only make a capital gain when they sell a second home or investment property, which is taxed at 18% or 28%.

Taxpayers who can organise their investments to make gains can take advantage of the annual exempt amount for gains (£11,700), which applies in addition to the £11,850 tax free personal allowance



for income. Although investing for returns in the form of capital gains has tax advantages, it also means more risk – the value may fall as well as rise.

Some investment products are in effect a ‘wrapper’ which changes the tax treatment. Some life insurance policies are, in reality, investments in Open-ended Investment Companies (OEICs) rather than true insurance. Investing in this way means that any higher rate tax charge on the income and gains arising in the investment can be deferred until it is eventually cashed in, and 5% of the initial amount can be withdrawn each year without triggering any immediate tax charge. These investments are often sold as conferring a tax advantage, but it is important to understand them properly to make sure that this advantage is a real one.

### **Tax deduction for investment**

Investment in registered pension schemes currently attracts tax relief at the taxpayer’s marginal tax rate for up to £40,000 a year, and also enjoys tax exemption while the money is in the fund – see page 26.

Subscribing for shares in Enterprise Investment Scheme (EIS) companies qualifies for a 30% Income Tax deduction – so £1,000 invested generates a £300 tax rebate. Up to £2m can be invested in a tax year for Income Tax relief. Gains on EIS shares are exempt from CGT provided the investment is held for at least three years, but any dividends are taxable. Similar tax reliefs apply if you invest in a ‘Social Enterprise’ either by way of shares or a loan.

Subscribers for shares in a Seed Enterprise Investment Scheme (SEIS) company will enjoy a 50% Income Tax rebate (i.e. more than the top rates of Income Tax), but the maximum investment under SEIS is £100,000 per tax year. Gains reinvested in SEIS shares reduce the tax due on the gain by 50%. Both EIS and SEIS companies have to be small unquoted trading businesses, so they are very high-risk investments. There are age limits on the trades operated in EIS and SEIS companies, which increases the risk.

Subscribing for shares in approved Venture Capital Trust companies (VCT) also qualifies for a 30% Income Tax deduction, and gains and dividends are exempt from tax. Up to £200,000 can be invested in a tax year. VCTs are quoted companies, but they have to invest in small unquoted trading companies, so they are also relatively high risk.

# TAX AND MONEY

## SAVINGS AND INVESTMENT

### Tax deferral for investment

If you make a gain on any asset, tax on that gain can be deferred if you invest in EIS shares (or a qualifying social enterprise) within a four-year period beginning one year before the gain arose. The deferred gain will be chargeable to CGT on the eventual disposal of the EIS shares or social enterprise investment.

### Key planning points

Investment income and gains are the most common opportunity for tax saving by married couples and civil partnerships. If the person with the higher marginal tax rate makes an outright gift to the other, that gift will be free from CGT, and the receiving partner may:

- pay a lower rate of Income Tax on income
- pay a lower rate of CGT on gains made when the asset is sold

For example, in 2018/19 a spouse earning £170,000 may save £450 a year by transferring an investment paying interest of £1,000 a year to a spouse with income of less than £46,350.

Any such transfer has to be genuine and outright. If the asset is chargeable to stamp taxes, there may be a small cost in selling rather than giving.

### Special cases

There are many complicated investments for 'expert investors'. The descriptions above cover the more routine types of savings, and you may want to take detailed advice on the tax consequences of other products. For example, some investments in unquoted trading companies may provide a shelter against IHT through 100% Business Property Relief. Investing in an unquoted company which is not your employer may qualify for the 10% CGT rate through Investors' Relief. However, before investing any large sum it is wise to take advice from a regulated financial adviser.

### Encouraging giving

The tax system provides a number of reliefs for making gifts to charity. If you are thinking of giving your money away, it's worth taking advantage of these rules to maximise the value of your gift.

### Income Tax

If you give money to charity and make a Gift Aid declaration:

- the charity can claim back 25% of the amount you give as a rebate of tax that you have paid on your income
- you can reduce the amount of income on which you are liable to tax at the higher rates

The effect is to give you tax relief for your gift at your highest marginal rate. Say you give a charity £8,000, it receives £10,000, and it costs you £8,000, £6,000 or £5,500, depending on whether you pay Income Tax at 20%, 40% or 45%.

The Gift Aid declaration confirms that you will pay at least as much tax in total for the year (Income Tax and CGT) as the charity reclaims (£2,000 in the above example), so it's important to check the numbers if you are making a very large gift or your tax liability for the current year is low.

You can also obtain tax relief for gifts of quoted shares or land – the value is deducted from your income before calculating your tax.

Employers can sign up to a 'payroll giving' scheme. Employees can then make regular contributions to charity out of their salary and receive tax relief through PAYE.

### Capital Gains

There is no charge to CGT where an asset is given to charity. As charities are not taxable if they use the proceeds of sale for charitable purposes, any gain disappears. This means that if you want to give the value of an asset away, and it's standing at:

- a gain, give the asset to the charity
- a loss, sell it, give the money to charity and claim Gift Aid relief.

The capital loss can still be used against other gains that you might make.

### Inheritance Tax

Any gift to charity is exempt from IHT, whether it's made during a lifetime or in a Will. If you give at least 10% of the net chargeable value of your estate (after the nil rate band) in your Will to charities, the rate of IHT on the remainder of your chargeable estate will be reduced from 40% to 36%. If your estate is only a little above the IHT nil rate band, this can be surprisingly generous. For example, someone with a wholly chargeable estate of £400,000 would only have to give £7,500 to charity in order to qualify for the reduced rate of IHT. Increasing a charitable bequest from £7,000 to £7,500 would actually increase the amount left for other beneficiaries after tax.



# TAX AND MONEY

## PROPERTY

### Bricks and mortar

Many people like the solidity of real estate as an investment. The tax rules offer some big incentives to put money into the house you live in, but they are less generous to other types of property.

The gain you make on selling your 'only or main residence' is exempt from Capital Gains Tax (CGT), unless you have been absent for extended periods or you have used part of it exclusively for business. This amounts to a strong tax incentive to invest in the home you live in over any other form of saving.

Other forms of property are chargeable to CGT, e.g. a second home, a buy-to-let, business premises. As gains are added to income in deciding whether the higher rate applies, any substantial profit on property is likely to bear CGT at 28% for residential property or 20% for commercial property.

### Property letting

If you let property as an individual, you pay income tax on the profit, after deducting the running expenses of the property. Interest you pay on loans relating to the let property can be deducted, but to a limited extent.

In 2018/19, you can deduct 50% of the interest paid, and claim a 20% tax credit in respect of the portion of interest charges which haven't been set against profits. The restriction for interest deductions will be increased to 100% by 2020, to be replaced entirely by a 20% tax credit. This change does not affect corporate landlords.

You may want to review the financing of your let property or consider transferring the properties into a company. It is important to consider all the taxes involved when transferring the ownership of let properties, including CGT, Stamp Duty Land Tax (SDLT), Land and Buildings Transaction Tax (LBTT) in Scotland, or Land Transaction Tax (LTT) in Wales. You also need to consider many other factors, such as whether you can transfer mortgages to the company (and, if so, how costly this will be) and all the legal formalities of dealing with a company, such as the preparation of statutory accounts.

If you let part of the home you live in, up to £7,500 of the rent you receive per year is tax free under rent-a-room relief. This relief doesn't apply to areas let for office/business use, as garaging or storage, but the £1,000 property income relief covers income from those areas. However, you can't claim either of these reliefs when letting to your own company.

### Key planning points

It's important to maximise the CGT exemption for your main residence. If you have been absent from the property and let the property out, or have used part of it for business, that CGT exemption may not apply in full. Where your home has been let out for a period, the CGT exemption is extended by an additional relief worth up to £40,000 per owner.

If you have two homes, both of which you use as your residence (e.g. a main home and a holiday home, rather than a rental property), you have an opportunity to maximise your CGT exemption. If both homes are in the

UK you can choose which is to be tax free, provided you do so within two years of starting to use the second property as a home. It's worth making this choice rather than leaving it up to HMRC to decide based on the facts of the case. Where one home is situated abroad, different rules apply.

The value of property is generally chargeable to IHT as part of your estate. The increasing value of homes is one of the main factors which can lead to IHT becoming payable after a death. See page 28 for details of the extra relief available where a home is left to direct descendants.

### Catches

If you sell part of your garden, any gain from that sale may be exempt from CGT, as the land is part of your main residence. But that exemption doesn't always apply: if the house is sold before the land, or (in most cases) if the garden is bigger than half a hectare, the gain will be taxable. It's worth taking advice if this is your intention.

When you buy land or buildings, you will pay SDLT, LBTT or LTT. There is a 3% supplement payable when purchasing an additional residential property for £40,000 or more, unless it is a replacement for your main home. The supplement is 3% of the total purchase price, so can significantly increase the costs of buying the property. First-time buyers may be able to enjoy an exemption from SDLT on the first £300,000 of value. A similar relief is likely to be introduced for LBTT in Scotland, with a threshold of £175,000, but not for LTT in Wales.

Companies pay higher rates than individuals on residential properties. A 15% rate of SDLT may apply to the whole purchase price when residential property worth over £500,000 is acquired by a company or similar structure. However, where the property is let on a commercial basis, or is acquired for development, the 15% rate doesn't apply and the normal SDLT rates apply. All corporate purchasers of residential property, though, must pay the 3% supplement mentioned above.

### Special cases

There are some occasions when tax planning for houses is particularly important, such as on separation or divorce: typically, one spouse moves out but often continues to own half the house. The CGT exemption can be lost unless you are careful.

Furnished Holiday Lettings (FHL) enjoy some tax reliefs not available to normal residential lets:

- gains can qualify for Entrepreneurs' Relief (10% CGT on the first £10m of gains) if the whole business is sold
- the gain on one FHL property can be deferred if a replacement is acquired

Qualifying for FHL treatment is hard work – the property must be let on short-term lets for at least 105 days a year, and it must be available for letting for 210 days or more. However, if a property has qualified as FHL in the last tax year, it may be possible to qualify for up to two further years in which the 105-day threshold is not met.

# TAX AND MONEY PLANNING FOR RETIREMENT

## A sunny or a rainy day?

The tax system provides some generous incentives to provide for retirement. Investing in a pension enjoys tax relief at your marginal rate of tax. You can pay in up to £3,600 or your current earnings (capped at £40,000), whichever is higher – although if your income is £150,000 or more, your annual pension allowance is reduced (see key planning points below). Most contributions are paid net of a 20% tax rebate which is put into the fund by HMRC.

The marginal rate tax relief means that £40,000 in your fund costs you £24,000 if you pay tax at 40%. Tax relief for pension contributions is given at your highest tax rate, but you need to claim relief at rates higher than 20% either through your tax return, or by contacting HMRC to have your PAYE code amended.

If you have been a member of a registered pension scheme in previous years and you have not used the full annual allowance, you can bring forward the unused amounts from the last three years to justify a larger current contribution.

Employer contributions to an employee's pension are exempt from tax within the same limits. There are special rules to cover final salary pension schemes, where a formula is applied to any increase in the employee's benefits during the year, producing a 'pension input amount' to compare to the £40,000 figure.

Once your money is in a pension scheme, income and gains are free of tax until you choose to take benefits. That should make the fund grow much faster than it would do in your own hands. There is a limit on the total that can be saved tax free in this way – for most people who take benefits in 2018/19, it is £1,030,000 (called the 'lifetime allowance'). This limit may be breached if you made large contributions in earlier years when the £40,000 annual limit did not apply. Anyone with a fund approaching this level should take advice without delay. There are punitive tax charges on funds which exceed the lifetime allowance when the pensioner starts to draw benefits from them.

Those aged 55 or over can now draw any amount from their defined contribution pension funds as required. In general, the first 25% of the accumulated fund is tax free (with different rules for final salary schemes), but the balance of the fund will be taxed at their marginal tax rate as they withdraw it. It is essential to take qualified pensions advice before starting to draw from a pension fund, as the decision can't be reversed. A lower annual allowance of £4,000 applies to people who have started to draw taxable income from a defined contribution pension scheme and wish to continue making pension contributions.

It's also possible to save for your retirement in other ways that don't have the same 25% limit on withdrawing a lump sum – for example, using ISAs, or investing in property. However, the tax relief on paying money into a pension fund, and the higher annual limit compared to ISAs, means that a pension fund can be built up more quickly.



### Key planning questions

- What is your current provision for retirement – pension funds, state retirement pension, assets saved up which could provide an income or a capital sum?
- When do you intend to retire?
- What do you foresee as your required income at that time?
- Do you require a certain amount of tax free lump sum, for example, to pay off the capital of an interest-only mortgage?
- How can the shortfall between your current provision and your requirements be made up before your intended retirement date?

### Key planning points

If your adjusted income is £150,000 or more, including any pension contributions made for you by your employer, you will probably have your annual allowance reduced by £1 for every £2 over £150,000, to a minimum of £10,000. For example, a taxpayer on a salary of £160,000 plus employer contributions of £20,000 will have an annual allowance of £25,000, calculated as: £40,000 - (1/2 (180,000 – 150,000)). As the employer has contributed £20,000, the individual can only contribute £5,000 (£40,000 - £15,000 - £20,000) with tax relief in 2018/19.

Although pension contributions are measured against earnings, they do not have to be paid out of earnings. If you sell an investment, you can top up your pension contributions and enjoy Income Tax relief, even though the source of the money is not subject to Income Tax.

### Catches

An employee enjoys Income Tax relief for pension contributions paid out of salary, but those contributions are still charged to NIC. Contributions paid by the employer are free of both tax and NIC, subject to the £40,000 limit. For someone with a salary of £30,000, it costs £303 in NIC to put £1,000 gross into a pension fund – £141 for the employee and £162 for the employer. It makes sense to agree to move from a contributory to a non-contributory pension scheme as part of a pay review. However, any 'salary sacrifice' has to be done carefully, in case HMRC argue that the contribution is really salary and subject to NIC.

### Special cases

If you are one of the shrinking number of people who are still members of a final salary pension scheme, it's important to understand what your benefits will be and how they are calculated. Your pay and benefits in your last few years of work may have a significant effect on your pension for the rest of your life, so it's important to take advice before changing your terms and conditions.

# TAX AND MONEY

## ESTATE PLANNING



### You can't take it with you...

It's often said that Inheritance Tax (IHT) is not a tax for the rich – it's a tax for the unprepared. If you plan, you can significantly reduce its impact.

IHT is charged on:

- lifetime gifts of capital to many organisations and trusts
- most gifts of capital within seven years of death
- assets passing on death

The following do not attract IHT:

- the 'nil rate band' – the first £325,000 of gifts or legacies
- residential nil rate band: £125,000 from the deceased's home or former home left to a direct descendant
- gifts to a husband, wife or civil partner (but see special cases below)
- gifts to charity
- the value of certain business and farming assets
- the first £3,000 given away each year
- 'normal expenditure out of income' – gifts which are made regularly and do not affect the donor's capital
- wedding gifts up to a set value
- small gifts of up to £250 to a particular donee in a year (but this is not deducted from a larger gift)

The value of the residential nil rate band will increase to £175,000 per person by 2020/21.

### Key planning questions

The first step towards IHT planning is to establish what your exposure to the tax is. You need a realistic assessment of the current value of all your assets, less your liabilities (such as a mortgage). Bear in mind that insurance policies which are payable to your estate on your death are included in the chargeable total. The excess of your net assets over £325,000, plus any available residential nil rate band, is potentially liable to IHT at 40%.

If you are a widow or widower and your former spouse left you some or all of their estate, you may benefit from an increased nil rate band – it's important to work out how much this might be and factor it into your calculations. If you received the whole of their estate, and you have a home to leave to your children or grandchildren, you could have a nil rate band of £1m by April 2020.

The second step is to identify any assets that you can give away, and to consider who you want to benefit from them. If you do not think the ultimate beneficiary is ready to own them outright, you can move those assets out of your chargeable estate by transferring them to a trust.

## Key planning points

If you can give assets away in your lifetime, you can reduce substantially the IHT charge on death. It's worth considering all the above exemptions. Note that the residential nil rate band does not apply if the home is given away during your lifetime.

If you have insurance policies on your life, you can make sure that they are not payable to your estate on your death. Transfer the benefit of the policy to a trust, or make sure that someone else is the beneficiary from the outset.

Have a Will that is written with IHT in mind and regularly reviewed.

If you want to leave gifts to charities on your death, consider whether you can leave at least 10% of your net chargeable estate to charities, in order to take advantage of the 36% reduced rate of IHT.

## Catches

Gifts have to be made outright to be effective for IHT purposes – if you continue to enjoy the use of the property given away, the value of that asset is likely to remain part of your estate for IHT purposes.

If you own business or agricultural property which is eligible for 100% IHT relief, it can be left in your estate without an IHT charge. However, if you sell the property, you suddenly become exposed to IHT on the full value.

Farmers retiring from farming activity may lose the benefit of the agricultural property relief on the farmhouse they live in.

If you have assets which might qualify for an IHT exemption, it's essential to keep them under review to make sure they continue to qualify – and if they don't, consider what action to take in respect of the increased IHT exposure.

## Special cases

The foreign assets of a foreign-domiciled person are not charged to IHT in the UK. Someone who is (or might be) foreign-domiciled should take advice on reducing their exposure to IHT in the UK.

Because of this exclusion of foreign property, a UK-domiciled person with a foreign-domiciled husband, wife or civil partner cannot give an unlimited amount to their 'other half' free of IHT. At present, there is a limit of £325,000 to cover lifetime gifts and legacies, although an irrevocable election can be made for the foreign-domiciled spouse to be treated as UK-domiciled. Again, anyone in this position should take advice on the best way to minimise the tax.

# TAX AND MONEY

## PAPERWORK

### Do you need to file a tax return?

Everyone who receives a notice to file a self assessment return should know that the deadline for submitting it online to HMRC is 31 January following the tax year. If HMRC sends you a notice to file a tax return, you have to file that return, even if you have no tax to pay. You can ask to be taken out of the self assessment system for the future, but you will have to respond to the notice to file. Failure to file even a nil return on time will result in penalties.

If HMRC has not sent you a notice to file a return, but you have not paid all your tax for the year, you are supposed to notify them by 5 October 2018 for 2017/18 liabilities. This will apply if:

- you become a higher-rate taxpayer for the first time
- you acquire a new source of income from which tax is not deducted, such as rent, or start a business
- you make a capital gain in excess of your annual exemption (£11,300 for the 2017/18 tax year)

If you are an employee, the PAYE system is supposed to transfer most of your tax-reporting obligations to your employer. By using PAYE correctly your employer should deduct and pay over the right amount of tax, report your income each month to HMRC, and your taxable benefits annually on a form P11D. However, the PAYE system is not perfect. You can end up paying too much or too little tax, through no fault of your own. HMRC can now adjust your PAYE code quickly within the tax year to take account of a new benefit or pay rise, but you need to keep an eye on your online personal tax account, to ensure that a bonus is not interpreted as a permanent pay increase.

It's unlikely that HMRC will ask you to start submitting tax returns unless you have other sources of income on which you are not paying the full amount due.

### Paying your tax

If you are within self assessment, you will have to pay:

- payments on account for 2018/19 on 31 January 2019 and 31 July 2019, based on the self assessment tax and NIC of 2017/18
- the balance of tax and NIC due for 2018/19 on 31 January 2020, together with any CGT due for 2018/19 and the first payment on account for 2019/20

If your tax liability for 2018/19 is likely to be less than the 2017/18 figure, you can apply to reduce the payments on account. This helps with cash flow.

On the other hand, if your tax liability for 2018/19 is likely to be much higher than for 2017/18, there will be a large balance to pay on 31 January 2020, and the payment on account due that day will also have gone up – it's helpful to have the figures early so you can plan.

## Corrections

If you realise that a past tax return was wrong, you can correct it and either pay more tax or claim some back. If you have underpaid tax for whatever reason, it's important to tell HMRC before the tax inspector writes to you. Where the error was made carelessly but not deliberately, an unprompted disclosure should avoid any penalty.

You can easily amend a tax return online for up to one year after the due filing date (i.e. by 31 January 2019 for the 2016/17 return). After that:

- you can make a claim for a repayment in respect of errors and omissions for four years after the end of the tax year (i.e. by 5 April 2019 for 2014/15)
- you can write to HMRC to disclose an underpayment in the same period

## Enquiries

HMRC can ask questions about the content of a self assessment return for up to a year after you file it. However, if a return is wrong, it has powers to collect the tax for four years (or sometimes longer) from the due filing date if the inspector makes a 'discovery'. That can include finding a mistake in a later return, as HMRC may then assume that the error also occurred in earlier years and put the onus on you to prove that it didn't.

If HMRC find errors, it can charge penalties (as well as the tax itself) and interest for late payment. These penalties can be up to:

- 30% of the tax underpaid for a careless error
- 70% for a deliberate error
- 100% for a deliberate error which has been concealed

All of these penalties may be mitigated if the taxpayer tells HMRC before they ask ('unprompted disclosure') or co-operates with an enquiry ('prompted disclosure') – but they will only be cancelled altogether for an unprompted disclosure of an error which is careless and not deliberate. Where offshore accounts have been used to hide income or gains the penalty can be up to 200% of the tax due.

## Key planning questions

- Do you need to file a self assessment return?
- Are you able to meet the deadline?
- Should you reduce your payments on account?
- Are you satisfied that past returns are correct (reading this booklet could indicate a tax relief you haven't claimed)?

## Catches

Beware of emails which pretend to come from HMRC asking for your personal details – they are certain to be 'phishing' scams. HMRC never send emails about tax refunds. Delete the email immediately or, if you are worried about ignoring something that claims to come from HMRC, ask us for advice!



# TAX EXILE RESIDENCE



## Going offshore

'Becoming a tax exile' refers to a person ceasing to be resident in the UK for tax purposes, such that their offshore income and gains (other than on UK residential property) fall outside the UK tax net. HMRC doesn't like to see a good source of revenue disappear abroad, and it may dispute whether the taxpayer has really lost their UK resident status.

If you leave or arrive in the UK on or after 6 April 2013, a legal test of tax residence applies. The complex rules involve the following steps:

1. test whether you are automatically non-UK resident; if the answer is 'no' then
2. test whether you are automatically UK resident; if the answer is 'no' then
3. test the number of ties you have to the UK – the higher the number of ties you have to the UK, the fewer the number of days spent in the UK in the tax year are needed to make you UK resident

There are special rules for those who leave the UK for a temporary period of less than five years.

If you remain UK resident for tax purposes, you are charged to UK Income Tax and CGT on your worldwide income and gains on an arising basis, i.e. even if you leave the money abroad. You may also be charged tax on that income or gain in the country where your overseas assets are held, but a double taxation agreement may allow you to offset that foreign tax against UK tax.

## Foreign domicile

If you have your roots in a different country, you may be 'foreign domiciled'. However, if you have lived in the UK for at least 15 out of the previous 20 years, you are deemed to be domiciled in the UK. Structures set up to take advantage of special tax rules for foreign domiciled individuals are largely worthless from April 2017. If you or your parents were born outside the UK, or you have claimed to be non-UK domiciled in the past, it's worth discussing your tax position with us.

## Key planning questions

- Do you think you may not be UK domiciled?
- Are you thinking of moving abroad, either temporarily or permanently?

If the answer to either of these questions is 'yes', it is important to take advice to make sure that you are aware of all the relevant tax rules.

## Chartered Accountants



## Business Services



## Tax Advisory



## Corporate Finance



## Financial Services



## IT Services

Bates Weston LLP is a Limited Liability Partnership.

Registered in England and Wales OC361828.

Bates Weston is the trading name of Bates Weston LLP.

Registered Office The Mills, Canal Street, Derby DE1 2RJ.

A full list of members can be found at the Registered Office.

Regulated for a range of investment business activities by the  
Institute of Chartered Accountants in England and Wales.

BATES WESTON LLP, THE MILLS, CANAL STREET, DERBY DE1 2RJ.

**T:** 01332 365855 **F:** 01332 291294

**E:** ENQUIRIES@BATESWESTON.CO.UK **W:** WWW.BATESWESTON.CO.UK