Client Briefing

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Year end tax planning time

Use your allowances or lose them

Inside...

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What's coming in the new government's tax plans?

With the Conservative Party's election victory in December, businesses now have a clearer idea of what tax changes they can expect to see introduced in April, and subsequently over the life of the new parliament

Directors and the self-employed can take comfort in the promise not to raise rates of income tax and national insurance contributions (NICs), although their value will be less reassuring if tax thresholds are not increased in line with inflation. There is also going to be no increase in VAT rates.

The level at which NICs start to be paid will be raised from £8,632 to £9,500 from April 2020, with a possible increase to £12,500 by the end of a normal five-year parliament.

There will be a one-year NICs holiday if you hire someone after they have left the armed forces. A further measure will see the employment allowance increased from £3,000 to £4,000.

Companies and business property

Unsurprisingly the previously announced cut in the rate of corporation tax to 17% has been cancelled, with the rate remaining at 19%.

The tax credit for research and development (R&D) expenditure for large companies is going to go up from 12% to 13%, with the definition of R&D reviewed to include investment in cloud computing and data.

Brick and mortar businesses continue to face challenges:

- Business rates will be reduced, with the government carrying out a fundamental review of the system. The first step will see a further reduction to business rates for retail businesses. A one-third retail discount has already been introduced for 2019/20 and 2020/21.
- The rate of structures and buildings allowance will be increased from 2% to 3%. This is not as generous as it might seem, because the allowance is only available for properties constructed since 29 October 2018.

Entrepreneurs will be pleased that both the Enterprise Investment Scheme and Seed Enterprise Investment Scheme will continue throughout the new parliament, but a proposed "review and reform" of entrepreneurs' relief has potentially ominous implications.

We will update you after the Budget in March.

Businesses losing out to fraud and scams

The cost of business losses from fraud and scams reached £682m in 2018/19, according to figures from Action Fraud, with nearly 60,000 reported cases.

While larger businesses are more likely to be able to absorb the impact, smaller businesses are at far greater risk of serious financial implications.

Three types of fraud stand out from the Action Fraud figures:

Employee fraud	£213.7m
Mandate fraud	£99.3m
Plastic cards and online bank accounts	£98.1m

Employee fraud

The past few years have seen a considerable increase in reported losses from employee fraud. Examples include the misuse of corporate cards, claiming personal items as business expenses and claiming unworked overtime.

You can help to reduce your vulnerability to such abuses by encouraging an environment of loyalty to the firm, where whistle-blowers feel they are able to come forward in confidence without any fear of reprisals. In many cases, staff will have suspicions or evidence about a colleague's fraudulent behaviour, but feel hesitant in raising concerns.

Payment frauds

Mandate fraud occurs when an employee is deceived into redirecting a regular payment mandate (such as a direct debit, standing order or bank transfer) to a fraudster's bank account. The regular nature of payments means that losses are likely to be higher than for one-off invoice fraud. The best defence is to verify requests for amended payments with the organisation or supplier in question directly using established contact details.

Plastic cards and online payments

There is considerable scope for fraud where debit/credit cards are lost or stolen, if card details are cloned or if online banking details are compromised.

Even the fast vanishing cheque can still be used in a scam – where a business receives a cheque for too much money and is asked to return the balance electronically.

Labour supply chains

At its most basic, labour supply chain fraud occurs when a business transfers staff and payroll responsibility to a fraudulent payroll company. The fake company will then not pay over the payroll deductions to HMRC. The typical target is a financially struggling business tempted by the opportunity to cut payroll costs.

More sophisticated schemes can involve fraudulent payroll companies, co-employment of a workforce and the use of umbrella companies. If you need help securing your business from fraud, we can point you in the right direction.

Year end tax planning time – use it or lose it

The end of the 2019/20 tax year is approaching and some of your tax reliefs and allowances will be lost if not used before 6 April 2020.

Income and gains arising in individual savings accounts (ISAs) are free of tax. You can invest up to £20,000 in ISAs in each tax year, but unused allowance cannot be carried forward. You can invest in one cash ISA, one stocks and shares ISA and one innovative finance ISA each tax year. If you are aged 18 to 39 you can, within the overall limit, invest up to £4,000 in a lifetime ISA.

There is an annual limit of £40,000 on pension contributions that qualify for tax relief, reduced to £10,000 or £4,000 in certain circumstances. You can carry forward unused annual allowances for up to three years to offset against a contribution of more than the annual limit.

- Tax relief on pension contributions is at least 20% but may be up to 45% (46% in Scotland). You may be able, year by year, to maximise the amount of pension contributions that qualify for relief greater than 20%.

- People with little or no earnings can contribute up to £2,880 to a personal pension – tax relief of up to £720 is then added to the personal pension by HMRC even if you do not pay tax. You could set up a pension for your partner or children.

Directors and some employees could avoid the highest income tax rates for this tax year, or the next one, by delaying or bringing forward income, such as a bonus or dividend.

If your business is affected by the off payroll working rules (IR35) you should calculate how much salary to draw before 6 April 2020 to

avoid being taxed on a 'deemed payment'. You also need to plan for the off-payroll working rule changes from April 2020.

Planning for couples

Couples may have more opportunities to plan their tax if they can shift income from one to the other.

- You should aim to use both individuals' personal allowance and minimise any higher and additional or top rate tax.
- Reorganising your investments between you may make better use of the tax-free allowances for dividend and savings income.
- If you are in business, you could pay your partner a salary or employer's contribution to their pension plan.

Capital gains

As far as capital gains tax (CGT) is concerned you should generally aim to use your £12,000 annual exempt amount by making suitable disposals before 6 April 2020.

- Careful timing of disposals before or after the tax year end may reduce the tax rate on your gains.
- Transferring assets between married couples or civil partners before disposal might save CGT.

CGT is usually paid on 31 January after the end of the tax year in which you make the disposal, so you could delay a major sale until after 5 April 2020 to postpone paying tax for 12 months. However, from 6 April 2020, a payment on account of CGT must be made within 30 days of a residential property disposal (where it is not an exempt principal private residence). So CGT will be payable much sooner on such a disposal made early in 2020/21 compared with one during 2019/20.

Procrastinating on year end planning rarely pays – April will be here quicker than you think.

> *"You may be able, year by year, to maximise the amount of pension contributions that qualify for relief greater than 20%*

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New relief restriction on corporate capital losses

A reform of the tax regime for corporate capital losses comes into effect from 1 April 2020 restricting relief for capital losses carried forward

The changes are along similar lines to the rules for carried forward income losses introduced in April 2017. However, there will be no increased flexibility in how capital losses can be used – relief will still be given against capital profits only, unlike with the income loss relief changes.

At present a company's capital losses are netted off against capital gains arising in the same accounting period. Any overall chargeable gain is subject to corporation tax. Where losses exceed gains, the net loss may be carried forward and set against capital gains of future periods. Companies in a group can elect to transfer gains or losses to another group company.

The new restriction will apply to capital gains arising from 1 April 2020. Use of brought forward capital losses will be limited to 50% of the capital gains of the accounting period, However, companies will have unrestricted use of up to £5m capital or income losses each year. Companies will now have to allocate that allowance between capital gains and trading and non-trading income. Groups of companies will have one allowance.

The change does not affect the set-off of capital losses against gains of the same period, which will continue to be unrestricted. Unlike income losses, all carried forward capital losses will be subject to the restriction regardless of when they arose. There will be transitional rules for accounting periods straddling 1 April 2020.

The restriction will only affect larger companies and unincorporated associations, because of the £5m deductions allowance. This effectively means that companies now making substantial capital gains will not be able to relieve them fully by using their historic losses.

> *Companies will have unrestricted use of up to £5m capital or income losses, to allocate between capital gains and trading and non-trading income*

Expand green governance for your business

Global giant Ikea recently committed to investing an additional £171m in green energy and forest planting as part of their plan to become carbon neutral within ten years.

Your company might not be able to match that, but there are other ways to make your business more environmentally responsible as businesses come under increasing pressure from government, clients and employees.

Green travel

For smaller and medium-sized businesses, an obvious starting point is green travel.

There are a range of options, some of which you may already have in place. The following are neither complicated nor costly to implement:

- Cycling to work can be encouraged by providing employees with tax-free bicycles and safety equipment.
- Loans can be made to purchase season tickets as an alternative to an employee driving in to work.
- Promote car sharing by offering an enhanced mileage allowance per additional passenger.
- Arrange free or discounted travel on public bus services.
- Provide showers and changing facilities for staff who want to walk, jog or cycle to work.

Also, the impact of daily commuting can be cut further if you can encourage flexible working from home.

Company cars

Changes to company car tax from 6 April 2020 provide a huge incentive to move to electric or hybrid vehicles. Pick the right car and your company will get a 100% up front deduction against profits, with the employee subject to little or no tax on their company car.

Embedding green policies

Focusing in-house, you can reduce energy use and make your products as ecologically safe as possible. Review your energy supplier and ensure company pension funds are invested ethically. Keep an eye on your use of plastics and purchase green products wherever possible from your supply chain, engaging with suppliers to change their strategies where needed.


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Go all the way by purchasing carbon credits to offset the carbon footprint generated by your company and/or your employees' travel. Green concerns are here to stay, so make 2020 your year of change.

Countdown to off-payroll rules change

The extension of the public sector off-payroll working rules (known as IR35) to the private sector is still set to go ahead in April 2020, despite the postponement of the Budget and a call from the Federation of Small Businesses (FSB) for the change to be delayed.

However, in January the government launched a review of the proposed changes to address concerns from businesses and affected individuals about how they will actually work. The review will determine if any further steps can be taken to ensure the smooth and successful implementation of the reforms.

The rules apply where a worker provides services through an intermediary – usually their own personal service company. Such workers would have been classed as an employee if they had worked directly for the end user of the services.

Where the end user is a public sector organisation, that organisation is responsible for determining the worker's employment status. From 6 April 2020, medium and large private sector and third sector organisations (e.g. charities) will also have to determine the employment status of contract workers.

If the worker is deemed an employee, the end user must inform the organisation that pays the intermediary, which must then account to HMRC for tax and national insurance contributions. The intermediary and worker will be able to challenge the decision.

Determining employment status can be difficult. HMRC offers a 'check employment status for tax' (CEST) tool designed to enable workers and hiring organisations to decide whether an engagement is an employment for tax purposes. A recent case was brought against Helen Fospero, a TV presenter. Although she was required to perform the services personally, and ITV retained editorial control over her programmes, other factors pointed towards self-employment and HMRC lost the case.

If you think you may be affected by the changing rules, get in touch.

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