Sibbalds
CHARTERED ACCOUNTANTS

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Lazy summer days lead us to thinking about anything BUT tax, however taking a few small actions could make a big difference in the tax you pay.

Planning for a sunny retirement

Paying into a personal pension not only helps to bring your retirement date closer and makes your pension pot greater but also can help reduce personal tax bills.

Depending on the rate of tax you pay, the cost of investing £1 into your pension could be as little as 55p.

There are certain limits to the amount you can pay into your pension and if you go over these limits the tax charges can be fairly high and so we would be happy to calculate your limits depending on your circumstances and advise on the possible ways to use pension contributions to save tax!

Is your contract caught by IR35?

IR35 is the name of the tax law brought in to prevent workers avoiding PAYE tax and National Insurance Contributions (NIC) by supplying their services to a client through an intermediary, most commonly their own limited company. If the limited company did not exist the worker would be classed as an employee and the client would be the employer.

If caught by IR35 rules, then an increase in tax bills and NIC liability could arise.

Most recently the IR35 rules have been applied to the majority of contractors contracting to public sector clients. It is anticipated the rules will be extended to apply to contractors in the private sector from as early as next April.

Contractors, freelancers or consultants who are in business on their own account, should have nothing to fear from IR35 provided they can satisfy several conditions set out by HM Revenue and Customs (HMRC). If you are a contractor and would like our specialists to undertake an IR35 review of your contractual terms and working practices to ensure they meet the criteria please let us know.

A final chance to enter a childcare voucher scheme

The deadline has been extended for employees (including directors) to enter into a salary sacrifice arrangement and receive employer supported childcare vouchers. In some circumstances these vouchers will save more tax than if the parent opened a Tax Free Childcare account.

The savings differ from family to family depending on the exact circumstances and the amounts paid to the childcare provider. For example, for those who have been receiving vouchers since April 2011 it may be worthwhile remaining in the voucher scheme, while those who are self-employed will probably find the tax free childcare account to the best option depending on the circumstances of the other parent.

We can show you which is the most beneficial option but with a September pay date deadline for having a voucher scheme and the salary sacrifice arrangements in place, please contact us for a speedy review.

Planning for life Insurance payouts can save Inheritance Tax (IHT)

Many individuals now believe they can have £500,000 of cash, assets and their share of the family home before their estate would have to pay IHT on their death and that this figure will be more than enough so no action needs to be taken.

But often they have forgotten their life insurance cover, which in some cases can amount to many thousands of pounds and when added to the estate on their death can cause a liability to IHT which had not been planned for.

If a life insurance policy is a *joint life* policy, meaning that the policy only pays out on the second death of a spouse in a marriage or partner in a civil partnership then the IHT liability can be even greater. For example, when the first of the couple dies their share of the estate passes to the surviving spouse or civil partner and then that surviving spouse or civil partner dies having all of the assets and the whole of the life insurance policy included in their estate.

A possible solution is to have the life insurance policy written into trust. This action will streamline the whole process. The proceeds of the policy are not included in the estate for IHT purposes and the proceeds of the policy are sent directly to your beneficiaries rather than having to go through the probate procedure.

Life Assurance Investment Bonds - caution when extracting cash!

Life assurance investment bonds are often used by financial planners as a method of gaining growth on an investment whilst allowing the investor to withdraw up to 5% of the premiums per annum. These withdrawals are called partial surrenders and if they are below the 5% limit any tax due is deferred until the policy ends. They are not **tax free** however as if the 5% limit is exceeded in a year, a tax liability may be triggered.

The gains arising on these policies are chargeable to Income Tax but they are not liable to basic rate tax, so a basic rate taxpayer who withdraws more than 5% may have no tax to pay provided their income plus the gain stays below the basic rate limit - this year that is £46,350. When the total of income plus gain goes above this figure it is possible for a basic rate taxpayer to be pushed into higher rates or a higher rate taxpayer into additional rates of tax.

Once the gain pushes an individual's income over £50,000 the higher child benefit charge is triggered and if the withdrawal pushes an individual's income over £100,000, the individual's entitlement to personal allowances starts to be withdrawn causing a potential further detrimental effect on their tax liability.

Personal allowances are withdrawn at the rate of £1 for every £2 the individual's earnings are in excess of £100,000.

Because the income is savings income the rates used for the gains are the same for Scottish taxpayers as for the rest of the UK.

Scholarships and Stipends

Many students undertake work at the same time as being on a full time course at university, but when are the payments they receive taxable and when are they tax free?

When looking at the taxable status of a payment, it's always a good place to start with the HM Revenue and Customs (HMRC) view but in the case of Scholarships and Stipends, HMRC is unhelpfully vague.

The basis for any decision will be what the student was actually doing during the period to which the Stipend or Scholarship was paid.

Exempt from income tax

If the student was receiving full time instruction. A PhD student doing research whilst a full-time student, where the research forms part of their study, would normally receive a scholarship exemption i.e. it is not taxable. This is because their research work is subordinate to the main object of acquiring training in research methods.

The exempt status will still apply even if they undertake small amounts of paid work, for example, teaching or demonstrating.

Not exempt from income tax

The income would be taxable when the student is, for example, on a sandwich course where students undertake periods of work experience away from the educational establishment during their course. Their educational award is usually suspended during such periods. Instead the student receives his or her salary or wages from the employer.

These are taxable earnings to which PAYE is applied in the normal way, if appropriate. No exemption arises, as the student will not, during the period of work experience, be undergoing full-time instruction at the educational establishment.

Digital Tax Update

Those businesses registered for VAT who have a turnover in excess of the VAT threshold, which is currently £85,000, **must** start to use digital methods to file their VAT returns on HMRC's digital platform from their first VAT quarter starting on or after 1st April 2019.

Whilst this requirement is for a business's **VAT returns** only and there is no requirement to file anything else digitally at present, filing quarterly updates of business transactions will be introduced as soon as 2020!

These requirements will cause extra work for businesses and if businesses have not already thought about their own processes it may be time to look at a few of the possible issues:

For some businesses it will be possible to buy off the shelf software but for others a bespoke software solution will be necessary.

Businesses with VAT quarters running to March, June, September and December will be subject to mandatory VAT filing from 1st April with the April to June 2019 VAT return. If that business has a year-end of 30th June 2019 will the business want to move software for that final quarter of their accounts year? Or would it be preferable to move to their new choice of software to ensure it runs smoothly and be well prepared for the mandatory filing date?

Top tip:

Speak to us about your Making Tax Digital plans or ask us for the next steps to ensure your business is compliant before your mandatory filing date.

Utilising trading losses

It's never good to make a trading loss but, in some years, circumstances may cause this situation to arise. If an individual or a partner in a trading partnership makes a trading loss there are a number of possible silver linings.

The rules for how trading losses get relief work differently for Income Tax, Tax Credits and National Insurance and so when you are unfortunate enough to make a trading loss it is always wise to speak to us about your full situation.

In a Tax Credit claim, any trading loss which is made in the same year can be deducted from any other income the individual has in the year or, in a joint claim, it can be deducted from any other income of the individual and their partner. This could substantially increase the Tax Credits payable.

Top tip:

It is possible to increase your Tax Credit payments by using your trading losses against the other income of yourself or your partner.

For Income Tax the same trading loss can be used in a number of ways against the profits of that same trade. Possibly the individual made profits in the first few years of trading, or has ceased to trade but made profits in the past, or believes profits will be made in the future. In these cases the losses of a particular year could be used to the individual's advantage and even reduce their Self-Assessment liability. Sometimes it is possible to give relief for the losses against an individual's other income, for example against employment income or even against a gain which has arisen on the disposal of assets!

Top tip:

It is possible to reduce your Self-Assessment bill by using trading losses to reduce past or future tax liabilities or liabilities on other sources of income or gains!

Class 4 National Insurance (NIC) is payable on trading profits. When a trading loss is calculated and subsequently used to reduce trading profits in the future or passed back to reduce a previous year's profits that relief also extends to the Class 4 NIC. But if the trading loss is used to reduce other income or gains both of which are not liable to Class 4 NIC, no relief is generated. A separate calculation is needed to ensure that the loss for Class 4 purposes is given against Class 4 NIC in the future.

Top tip:

It may possible to reduce your Self-Assessment bill by obtaining relief against National Insurance for your trading losses.

We are here to help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

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