

TAX



## Lift off for the 2018/19 tax year

*The new income tax rates and allowances came into effect as usual on 6 April, the start of the 2018/19 tax year.*

Many tax allowances have increased. For example, the personal allowance has risen from £11,500 to £11,850. The capital gains tax annual exempt amount is now £11,700, up from £11,300 in 2017/18. However, the dividend allowance has been reduced to £2,000, down from £5,000, and this will especially hit director-shareholders who draw most of their remuneration as dividends.

### Income tax differences

For England, Wales and Northern Ireland, the higher rate income tax threshold in 2018/19 is £46,350 (£45,000 in 2017/18). Scottish income tax payers have a different structure, with new starter (19%) and intermediate (21%) rates, along with a 41% higher rate tax on income from £43,430 to £150,000. The top rate for Scottish income over £150,000 is now 46%. Savings and dividend income is taxed in the same way as in the rest of the UK.

Directors and employees who drive company cars will also pay more tax. Most fuel benefit rates have increased by 2%, and the rate for electric cars and cars with CO<sub>2</sub> emissions up to 50g/km have increased to 13% from 9%. The diesel supplement is now 4% for cars that do not meet the Real Driving Emissions Step 2 (RDE2) standards.

Hybrid cars or diesels that meet RDE2 don't incur the diesel supplement. Employees who recharge their own electric or hybrid car at work will also no longer be taxed on the employer-provided electricity.

### Inheritance tax and pensions

The inheritance tax residence nil rate band has risen to £125,000, and will rise to £175,000 over the next two years. This allowance covers property left to direct descendants, although it is tapered away for estates worth more than £2 million. The pension lifetime allowance has also been indexed to £1.03 million.

If you would like to discuss with us how you may be affected by the new rates, please get in touch.



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## Taxing a cryptocurrency

*2018 has not been particularly kind to Bitcoin after a booming 2017. But anyone who invested more than a year ago should still be showing a substantial gain.*

There are now more than 1,500 cryptocurrencies, and some have seen much larger gains, especially for those investing in a currency's initial coin offering (ICO). So if you are now cashing in, what are the tax consequences?

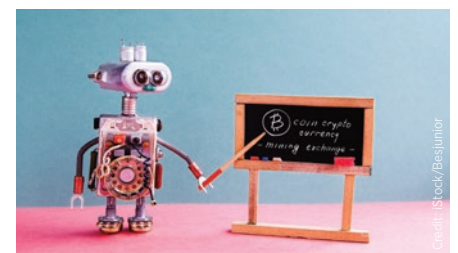
HMRC issued guidance on how cryptocurrencies should be taxed in 2014, but this has not been updated as they have evolved. There is no mention, for example, of the tax treatment of free coins received following a cryptocurrency forking into two new currencies.

### Case-by-case assessment

Each gain made when a cryptocurrency is converted into pounds sterling has to be considered on a case-by-case basis. A highly speculative transaction, such as the initial investment in an ICO, could be considered like gambling and therefore exempt from tax.

However, as cryptocurrencies have become more mainstream, and with more investment advice available, such treatment is now much less likely to apply. Gains will therefore normally be subject to capital gains tax. After the £11,700 exemption, the rate is 10% where a gain falls within a person's basic rate tax band, and 20% above that.

Be warned that the Treasury intends to crack down on cryptocurrencies because of tax evasion concerns.



# Pension contributions offset tax gains

*Contribution rates for workplace pensions went up in April 2018. For many employees, the increases will wipe out the gains from tax changes for 2018/19.*

Auto-enrolment began in 2012 with existing employers joining the scheme until February 2018. As a result, the number of people with a workplace pension has risen by nearly a quarter. The next step is an increase in contribution rates from 6 April, with another rise in 2019/20.

For example Jessica, an English resident employee earning £35,000, will save £70 of income tax in 2018/19 from the increase in the personal allowance. She will also save £31 of national insurance contributions (NICs) because of the increased NICs thresholds. However, her net of tax pension contributions will rise by £462, so Jessica's net income will have dropped by £30 a month in 2018/19.



Of course, this money is not lost. It is invested in a pension, meaning there will be more funds available in retirement.

Contributions	17/18	18/19	19/20
Employer minimum	1%	2%	3%
Employee*	1%	3%	5%
Total minimum	2%	5%	8%
Earnings band	£5,876 to £45,000	£6,032 to £46,350	TBC

\* If the employer pays the total minimum contribution or more, the employee will not need to pay any contributions, unless their scheme rules require it.

## Further changes

Looking to the future, the government wants to lower the starting age to 18 and it also aims to ensure contributions are paid from the first pound earned, although probably not until the mid-2020s.

# Is import VAT coming after Brexit?

*UK businesses may find themselves paying VAT upfront for the first time.*

Controversial legislation making its way through parliament will apply when importing goods from the EU after Brexit.

## Reverse charge procedure

Currently, if a business acquires goods from within the EU, it accounts for VAT under a reverse charge procedure. Both the output VAT and input VAT are entered on the same VAT return so, for most businesses, there is no VAT cost because the two amounts cancel out.

## Imports

The Taxation (Cross-border Trade) Bill will remove the concept of EU acquisitions. Instead, HMRC will treat purchases from the EU in the same way as imports from outside the EU. This is conditional on the Brexit negotiations.



Import VAT will need to be paid at the time of importation, as a condition of clearing customs. This is reclaimed on the next VAT return, but depending on timing there could be a five-month delay before import VAT is recovered. For businesses that only deal with the EU, this could cause serious cashflow problems.

This VAT change could take effect when the UK leaves the EU on 29 March 2019.

## Planning points

Businesses can mitigate the cashflow problems around importation:

- Regular importers can set up a deferment account with HMRC, allowing import VAT to be paid monthly in arrears. It is often necessary to provide HMRC with a costly bank- or insurance-backed guarantee.
- Firms can file monthly VAT returns if they regularly receive VAT refunds, although this does mean 12 returns a year.
- Businesses can set up a revolving credit facility to fund import VAT, but this has a cost.

It is best to prepare for the likely outcomes of the negotiations with the EU, such as rules generally applied to countries outside the EU. Please contact us if you want to discuss the potential implications for your business.



# One more year of class 2 NICs

*Class 2 national insurance contributions (NICs) have been extended until April 2019, to reduce the impact on self-employed workers with low profits.*

They were due to be abolished this April.

Self-employed workers with low profits, or making a loss, are currently entitled to the state pension and other contributory benefits if they pay class 2 NICs. If you are eligible, you can pay class 2 NICs on a voluntary basis at just £153.40 a year.

However, from April 2019, self-employed workers with profits below the Small Profits Threshold (SPT) – around £6,000 – will have to pay voluntary class 3 NICs at a current cost of £761.80, nearly five times more.

Where profits fall between the SPT and the class 4 threshold (currently £8,424), you will not have to pay class 4 contributions, but you will be treated as if you had paid them when working out your entitlement to benefits like the state pension.