eNews
SUMMER 2019

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TAXATION

Swings and roundabouts of income tax changes

The personal allowance for 2019/20 is now £12,500 and the higher rate income tax threshold has increased to £50,000 for those outside Scotland.

These increases are well ahead of inflation – 5.5% for the personal allowance and 7.9% for the higher rate threshold. But are these increases as beneficial as they appear?

Employees

For an employee with earnings of £50,000, the income tax saving compared with 2018/19 is a quite respectable £860. However, main rate employee class 1 NICs are now payable up to the new £50,000 threshold. So for 2019/20, NICs have increased by £340.04 – reducing the net benefit of the personal allowance for such employees.

> *There could be an overall monthly shortfall of just over £42.*

Then, once the higher workplace pension contributions for 2019/20 are taken into account, there could well be an overall monthly shortfall of just over £42 – not quite what was expected. Most better-off pensioners, however, benefit from the income tax saving without suffering the drawbacks.

Company owner/managers

Company owner/managers can avoid the NIC increase if they withdraw at least some of their profits as dividends. The increased contributions to workplace pensions probably are not directly relevant for them, although clearly they can't afford to ignore the need to provide for their retirement.

Couples

The higher personal allowance and tax threshold provide more scope for married couples and civil partners to reduce their overall tax liabilities. The increases represent at least another £1,000 of potential further tax savings where one partner is an additional rate taxpayer and the other partner has little or no income, depending on individual circumstances.

Please get in touch if you would like to start planning early in the 2019/20 tax year.

TAXATION

Non-residents feel the pinch

The scope of the UK capital gains tax (CGT) regime now includes gains by non-residents on the disposal of non-residential UK property. The change came in on 6 April.

Indirect disposals are now caught as well. If that were not bad enough, the government is consulting on the introduction of a 1% stamp duty land tax (SDLT) surcharge for residential property purchases by non-residents in England and Northern Ireland.

Capital gains tax extension

Non-residents were already taxed on UK residential property gains. The changes mean that disposals of interests in any type of UK property are now caught by CGT. The indirect disposal rules apply on the disposal of a company or other entity where at least 75% of its asset value is derived from UK property. There is an exemption for investors who hold less than a 25% interest.

The value of a property can be rebased to its April 2019 value, so that only subsequent gains are taxed, and this option is available for both direct and indirect disposals. Of course, the original cost of the property can always be used if it would mean a smaller taxable gain.

SDLT surcharge

The 1% SDLT surcharge applies to non-UK residents who buy residential property in England or Northern Ireland. Non-UK resident companies will also be caught, and in this case the 1% surcharge is likely to be applied on top of the 15% anti-avoidance rate for residential properties worth over £500,000.

TAXATION

Caught in the high income child benefit tax trap?

Parents and carers with income of more than £50,000 may face large backdated tax bills plus penalties if they have not been paying the High Income Child Benefit Charge (HICBC).

Anyone who is responsible for a child can claim child benefit of £20.70 a week for the first child and £13.70 for each further child. However, if your adjusted income is more than £50,000, and you or your partner has claimed child benefit, you will have to pay back 1% of the benefit for every £100 by which you have exceeded that limit. You will have to repay all of the child benefit if the adjusted net income is over £60,000.

To pay the HICBC you need to complete a self-assessment tax return. Anyone who has not already done so must register for self-assessment by 5 October following the tax year in which the charge first arises. There is


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a particular problem for some people whose income has increased above £50,000, but have not realised that the onus is on them to complete the tax return and pay the tax.

When they eventually register, or HMRC catches up with them, these people are faced with a back payment from the date their income first exceeded £50,000 plus penalties for the late declaration. The penalty may be withdrawn where the taxpayer has a 'reasonable excuse' for the failure, but there will still be a tax charge which could amount to several thousand pounds.

One way to avoid liability to HICBC is for neither parent to claim the child benefit, but doing that may result in a loss of state pension rights. If a parent is off work and not paying national insurance contributions, they receive credits towards the state pension by claiming child benefit for a child under 12.

If the working parent earns more than £60,000, so that the whole of the child benefit would have to be repaid, a non-working parent could make a claim to obtain the NIC credits, but opt not to receive the benefit payments.

If you think you could be affected, please get in touch.

PENSIONS

Contributions rise for auto-enrolment pensions

Employers and employees have both been hit since 6 April with a large rise in contribution rates for automatic enrolment pension schemes.

The employer's minimum contribution has gone up from 2% to 3% of band earnings and the total payment into the scheme is now 8%, up from 5%. So if the employer pays no more than the minimum, the employee will have to put in 5% – previously 3%.

The large rise in the upper earnings limit this year (from £46,350 to £50,000) has added to the burden for higher earners and their employers. For an employee earning £50,000 or more, the employer's minimum payment has risen from £806 in 2018/19 to £1,316, and the employee's contribution from £1,210 to £2,193.

The increase will have a noticeable effect on employees' take-home pay. Employers should make sure their workforce understand the deduction and the importance of saving for their retirement, especially as the age at which they will receive the state pension is rising.

Employers who wish to avoid the disincentive effect of reduced take-home pay could contribute more than the minimum. For example, if an employer pays 5% rather than 3%, employees could continue to pay the 3% deducted in 2018/19, as long as the total contribution still comes to 8%.

The auto-enrolment contribution percentages are the same regardless of age. However, the amounts people need to contribute to achieve the level of income they want in retirement will vary. For example, a 25-year-old need only save about half as much as a 35-year-old to end up with the same retirement fund at 65.

Employees who only make the minimum auto-enrolment pension contributions may find that their retirement fund does not meet their needs – and the older they are, the larger the shortfall is likely to be.

TAXATION

Advisory fuel rates fall

HMRC's latest advisory fuel rates have been reduced across the board, except for diesel cars with engine sizes of 1,600cc or less which are unchanged.

Fuel prices were relatively high throughout much of 2018, but they fell towards the end of the year with this trend continuing into 2019.

The advisory fuel rates per mile from 1 March are:

1,400cc or less	11p	10p	7p
1,401cc to 1,600cc	14p	10p	8p
1,601cc to 2,000cc	14p	11p	8p
Over 2,000cc	21p	13p	13p

The advisory electricity rate for fully electric cars is 4p per mile. Hybrid cars are treated as either petrol or diesel models.

Rates can only be used to reimburse employees for any business travel in their company cars, or where employees are required to repay the cost of fuel used for private travel. The next review is 1 June, although current rates can also be used throughout June.