DNS Accounting Group

TAX SAVING TIPS

HMRC assesses taxes annually and many allowances are also allocated annually. Hence there are many opportunities to optimise your taxes just by planning and timing your actions.

Additionally, HMRC wishes to promote some types of action, so it may be to your advantage to take these opportunities, while available.

Here we have outlined some of the key opportunities available to you

- As an individual
- As a business
- As an employee

If you want to know more about any of these or book a meeting with an independent financial advisor, then do contact DNS Accountants.

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Personal Planning Opportunities

Income Management

Firstly, personal tax is based on annual income levels so you need to be aware of what your income is this year and what you anticipate it to be in the future so you can do some planning to reduce the tax thereon.

We understand you do not want to reduce your actual income, just organise your affairs better so you pay less of it to HMRC. Here are some good reasons for planning income variations:

- Have you earned enough this tax year to use your personal allowances?
- Have you earned enough to earn your national insurance credits?
- Have you or will you stray into the next tax bracket?
- What is changing and can you exploit this?

If you are in business in your own right, whether as a sole trader, the director of a company, or just a rental property owner, then you may have the opportunity to plan some variations in your personal income

- When do you change your business entity?
- When do you do those repairs?
- When do you take on a new employee?
- What salary or dividends do you take?
- When do you replace that equipment?

Please also see Business Planning Opportunities section.

If you are not in business then you may still have some sway over your earned income e.g. do you do that overtime, when do you go on Parental Leave, do you make an extra pension contribution. You may also be able to take advantage of employer benefits that may be offered by your employer– see Employee Benefit Opportunities section.

Do not forget the opportunity to claim job seekers, sick pay or maternity benefit if you are off work, direct from HMRC, especially as many of these claims earn you national insurance credits towards state pensions too.

Child benefit claims also earn you national insurance credits towards state pensions, even if your spouse is a higher earner so the benefit is refundable.

Low earners and low paid pensioners may be entitled to universal credits, based on annual income. Put in your claim early as it may only be back dated by 31 days. Note: child tax credits can be available up to income of £35,000.

Finally, there are other benefits and support allowances for special circumstances e.g. bereavement, incapacity, carer's that you may wish to investigate.

Marriage Allowance

If you are married and each have income of less than £50,000, then it may be to your advantage to claim the marriage allowance. This effectively transfers 10% (2019/20 - £1,250) of the Personal Allowance from one spouse to the other. This is most beneficial if the lower earner has not earned enough to use their personal allowances, as you can save up to £250

HMRC will accept back dated claims, currently to 2014/15 tax year.

Personal Savings Allowance

Individuals may now earn a small amount of interest tax free This personal savings allowance is dependent on total level of income for the tax year.

Total Income level	PSA
Under £50,000	£1,000
£50,001 to £150,000	£500
Over £150,000	zero

Interest on investments in joint names is taxed 50:50. Transfers of money between spouses is usually tax neutral, and then interest may use spouse allowances; but interest on money transferred to minor children remains your interest.

See Business Opportunities section for lending money to your own company.

Dividend Allowance

Individuals may now receive £2,000 of dividends per annum tax free, irrespective of other income. If dividend income exceeds £10,000 then a personal tax return is required. Between these sums additional tax is due but may be assessed by HMRC independently of the need for a personal tax return.

Transfer of shares between spouses is usually tax neutral and can hence be used to make best use of this personal allowance. Do talk to DNS accountants about the benefits for you.

Pension Contributions

Pension Contributions are currently one of the best ways to save taxes while at the same time saving money for the future.

Contributions via your employer, go into the pension fund tax and national insurance free.

When you personally contribute, HMRC adds basic rate tax refunds to your fund. Personal contributions should then be declared on your personal tax return, resulting in tax bands being raised and hence income which may have previously been taxed at higher rates now being taxed at a lower tax rate. This effectively gives you full income tax relief on your personal contribution, but not national insurance relief.

When you reach 55, you can start to make withdrawals; 25% of such withdrawals are tax free, only the remaining being taxed at your normal marginal tax rate at date of withdrawal.

If you want to get involved in the investments of your pension fund then you may like to consider a SIP (Self Invested Personal pension fund)

There are lifetime limits so if you have existing high value funds or expectations e.g. NHS or Teachers pension then please check these limits before you make any new contributions, as there can be hefty penalties if you exceed the caps by even £1.

Gift Aid Donations

Gift-Aid donations work in a similar way to pension contributions.

When making a donation to charity, you can sign up to Gift-Aid – hence advising the charity that you are a UK income tax payer. This enables the charity to ask for a basic rate tax refund on that donation. This increases every £100 you donate into £125

But you too can benefit, because just like pension contributions you can put the donation on your personal tax return and get higher rate tax relief.

Do not forget donations to charity do not need to be cash – they could be items to a charity shop, shares or even excessive bids at a charity auction.

We do not however recommend donating your anticipated tax refunds to charity, as suggested by HMRC, because if HMRC make a mistake then the donation cannot be refunded.

Capital Gains Allowances

Each year you can make up to £12,000 of capital gains tax free. So is your investment portfolio being managed to use this annual allowance? Or are you in for a big tax bill when all those investments that have risen in value over the years are sold off.

If total of all capital gains in the year is less than £12,000, on sale proceeds of less than £48,000, then you do not need to report these on your personal tax return – so is it time to sell some of those tricky investments that you would struggle to cost for a capital gains computation e.g. those with reinvested dividends, or you inherited.

The lettings allowance of up to £40,000 per person, on sales of property that has once been your main home, is being abolished from April 2020 – so is it time to sell.

From April 2020 most property that you have not lived in for over 9 months, will be subject to capital gains tax - reportable and payable within 30 days of sale. Do talk to DNS accountants about your liabilities.

Inheritance Tax (IHT) - Lifetime Allowances

Every individual has lifetime gift allowances – amounts they can give away without effecting their inheritance tax bill. As follows: -

- Annual exemption – up to £3,000 (if you have not used last years allowance then you can use that this year too)
- Wedding exemption – up to £1,000 per person (£2,500 for a grandchild or great grandchild, £5,000 for a child)
- “Normal Gifts out of income” exemption – must happen regularly and not affect your standard of living e.g. regular Christmas or birthday presents or even a grandchild's school fees paid from a large monthly pension.
- Spouse exemption – there is no limit on lifetime gifts between spouses who both live in the UK permanently
- Assistance with another's living costs e.g. elderly relative
- Donations to charity or political parties
- Small Gifts – up to £250 per recipient per year (if not in receipt of one of the above)

Any gift that is not tax free when made, under one of the above, could incur inheritance tax, if you die within 7 years – so do use these allowances. The recording of significant gifts and loans is recommended, including terms and allowances being used.

HMRC Investment Incentives

Individual Savings Accounts (ISAs)

ISAs are a great way to save and invest money while saving taxes. Currently up to £20,000 can be put into ISAs annually, with any income or gains from such investments being tax free. Also, income from ISAs doesn't need to be declared on your personal tax return.

There are several types of ISA you can invest in

- Cash ISA – for investing cash
- Shares ISA – for new or existing shares
- Combinations
- Special purpose ISAs

Lifetime ISA

One special purpose ISA is a Lifetime ISA, intended for use to buy your first home or to save for later in life.

Special rules:-

- You must be aged 18 to 40 to open one.
- Up to £4,000 pa may be invested, until you're 50.
- The government will add a 25% bonus to savings deposits
- There is a 25% penalty if you withdrawn the funds other than when:
    - Buying your first home, OR
    - Over aged 60 OR
    - Terminally ill, with less than 12 months life expectancy

Investing in EIS, SEIS, SITR or VCT

The Government is incentivising people to invest into companies that are just starting, by offering personal tax reliefs to investors. The Tax Reliefs vary depending on the specific tax scheme under which the investment is made. The company raising funds needs to be registered with HMRC, under the relevant scheme and follow the rules for that scheme, or investors will not get the reliefs.

An entrepreneur may benefit by registering their company, to attract outside investors, but cannot personally claim these reliefs.

The main schemes available at present are as follows:

- Enterprise Investment Scheme (EIS)
- Seed Enterprise Investment Scheme (SEIS)
- Social Investment Tax Relief (SITR)
- Venture Capital Trust (VCT)

Upon investing in newly issued shares, for at least 3 years, investors may enjoy a whole raft of benefits

- Income tax bill reduction (in current and or previous year) - as a percentage of the amount invested,
- Tax relief on Dividends
- If investment goes well, then capital gains on disposal may be tax exempt
- If the investment does badly then you may be able to claim income tax relief on the loss
- If the money you invest was from the sale of an asset, then there may be tax reliefs available for that gain too

Here is a table to show how these schemes differ

	EIS	SEIS	SITR	VCT
Investment Limits	£1m (+ £1m in Knowledge companies)	£100,000	£1m	£200,000
Income Tax Relief	30%	50%	30%	30%
Relief Year	Current & Preceding	Current & Preceding	Current & Preceding	Current only
Dividend Relief	None	None	None	Tax Free
Capital Gains Relief	Yes, if you had income tax relief	Yes, if you had income tax relief	Yes, if you had income tax relief	Yes
Loss Relief	Yes	Yes	Yes, but not on loans	No
Investing Gain	Deferred to sale	50% exempt	Deferred to sale	No

Remember these are reductions to tax bills, not refunds.

Business Planning Opportunities

Income Management

Tax is assessed on business profits. So, the first tip is to make sure you miss nothing.

- Include all income, even bad debts, as this justifies related costs
- If there are bad debts then these count as expenses, as do attempted collection costs
- Expense everything you incur for business – once you start deciding to miss things then you will be paying more tax than necessary and fooling yourself as regards how the business is doing
- Business use of personal items is also a business expenses – note it down, your accountant can help you arrive at the tax allowable expense
- Second hand goods, previously belonging to you but now used by the business, are also tax allowable, and a way of extracting cash from your company
- Collect receipts –these justify costs and allow VAT recovery
- Know/learn rules & deadlines - so you do not incur penalties
- If you are considering changes or big purchases, then consult your DNS Accountant for the tax consequences
- Plan the timing of big or irregular events & costs – so you do not suffer from too many surprises
- Never miss pre-trading expenses

If in doubt, then ask your DNS Accountant – do not just forget it

Business Structure

Once you know your regular business activity then you need to make sure you have an appropriate business structure that meets the needs of you, your business, any business partners or associates, customers and suppliers, and is as tax efficient as possible.

You may have made this assessment when you first started in business but remember that it should be reviewed regularly, especially when changes happen. You also need to know when the next trigger point is reached.

- Have you got married/divorced? – New family members may mean new opportunities or associates
- Have your business relationships changed e.g. end of big contract?
- Has the business grown, or shrunk?
- Are you making new plans – location or expansion?

Do talk to DNS accountants about your new opportunities

VAT Status

If your business turnover is over £85,000 then you have to be registered for VAT. However, there are many VAT schemes, some of which may or may not benefit you, including voluntary registration. It is therefore a good idea to periodically review your situation

- Has your turnover dropped – would it be a good idea to de-register?
- Are you still on flat rate – is this still the best for you?
- Are you stopping/starting to trade with Europe – how does this effect you?
- Are you CIS registered? Would monthly VAT returns benefit you?

VAT Recovery

If your business is registered for VAT then you should be able to reclaim VAT on your purchases. But preparing for VAT recovery should start sooner

- You can only recover VAT is you have a receipt with a UK VAT number on it so collect and file your receipts
- VAT can be recovered on assets held at date of registration and purchased within the previous 4 years – so keep VAT receipts for asset purchases even if not yet registered
- You can only recover VAT on business purchases, but if a bill is part business and part personal then you can claim the VAT on the business part
- If the company is reimbursing you as employee then VAT may still be recovered on those reimbursed expenses e.g. new computer, business call on your home phone
- You can recover the VAT on the petrol proportion of business mileage claims
- You can claim VAT on staff meals including staff functions – but not if entertaining others.

Family Company

When you are in business then it is very common for family to become involved so do take the tax opportunity that comes with this.

Other family members have personal allowances the same as you - for wages and dividends etc. When already sharing income or expenses then to pay them direct out of the company, using their allowances instead of yours, can be very tax efficient.

You as director and any family members on the payroll are classed as employees, who are therefore entitled to employee benefits see employee benefit opportunities section.

Do talk to DNS accountants about your planning opportunities.

Capital Allowances

Equipment purchased for business may qualify for 100% capital allowance (a deduction from taxable profits) at time of first business use. Otherwise it may qualify for just 18% or less annual allowances. Hence planning the timing and nature of large purchases can be critical for tax bills.

- There are currently 100% allowances for energy or water saving plant or machinery, but these are due to stop in April 2020. HMRC has a list of qualifying products.
- There is currently 100% allowance for most purchases of plant and machinery (including vans & lorries) up to £1m – a temporary increase from £200,000 for the period 1st January 2019 to 31st December 2020. The problem is for those whose business year end is not 31st December – these limits are pro rata so the month of purchase may be critical. Do talk to DNS accountants about your plans
- There are currently 100% allowances for purchases of new unused low or zero emission cars & new unused zero emission goods vehicles, but these are due to stop April 2021
- There are special rules for business structures & buildings. So whether purchasing, building or restructuring then do talk to DNS accountants before incurring any of these costs.

Business Property

If purchasing/selling then classification and value split, between land, structure, integral features, plant & equipment and goodwill, can have big consequences for all taxes including VAT & stamp duty. Hence do consult accountants as well as solicitors before agreeing the purchase price – specialist valuers may also be advisable to identify and hence maximize capital allowances for integral features.

There are new allowances available for building business property and good records need to be kept. To know more then do talk to your DNS accountant

If renovating then it is a good idea to talk to DNS accountants at the planning stage as there may be VAT and or tax savings to be made based on how the worked is planned, quoted and billed.

Home Office Rent

A freelancer or sole-trader working from home may claim a proportion of the household costs associated with the business use. However, as an employee the director of a limited company cannot do this.

The alternative is Rental Planning whereby the director enters into a rental agreement with the company on a commercial basis to provide his residence to the company. The Director then receives rent, which as taxable income is included on his personal tax return, along with a claim for a proportion of all expenses; thus resulting in a tax saving for the company and tax efficient extraction of funds.

If you own the property, then costs can include mortgage interest but not capital repayments. If the property is a rented one, the rental charges need to be captured. Also, you can include costs that are paid jointly but not costs that are being paid completely by someone else. Other costs that can be included are insurance, council tax, gas, cleaning, service charges, and electricity.

Then to calculate what proportion of the cost would be fair to apportion to the business, a simple method of computing may be:

- count the number of rooms in the house excluding hallways, bathrooms, and kitchens e.g.6
- estimate the number of rooms used for business, taking into account time used for business verses time used for other things e.g.50% of dining room plus 100% of study = 1.5 rooms
- apportion above captured costs to the business in this proportion i.e. 1.5/6

An important tip: *The entire office room should not be used for business. A small portion of the room must be kept for personal use as this protects the home owner from possible capital gains.*

Loan Interest Claims

If you borrow money to loan in your business, then the interest on that loan is a tax allowable deduction for your business, if paid by the business e.g. back to back loan and repayments.

If you borrow money to lend to a business, not necessarily your own business, then the interest you pay on that loan is an allowable deduction against your income – claimable via your personal tax return.

In these cases, it is the purpose of the loan that merits the tax deduction not the security – so the loan maybe an extension to your home mortgage.

Loan Interest

But you do not need to borrow the money to benefit. If you lend money to your own company then that company can pay you loan interest, that it can claim for tax relief and on which you may not pay tax (if less than your personal savings allowance)

This can be a useful way to extract tax free funds as the individual can charge interest to the company at the market rate.

However, the company must have had a reason to borrow, and the interest must be reported to HMRC and paid to the individual after deduction of basic rate tax.

If you would like assistance with this then do contact DNS Accountants

Research & Development (R&D)

Many businesses develop new products themselves. HMRC wishes to promote advances in technology. Hence if your business is conducting innovative work in science then it is worth investigating the extra tax reliefs available.

Some reliefs are available to subcontractors as well as owners of the intellectual property, but you cannot claim if the project is state funded e.g. grant. The project does not have to be successful, or patented, just related to your business activities.

Do keep a note of relevant costs per project, as a report on the work and innovations is required to claim these reliefs. The project may be to research or develop a new process, product or service, or even just improve an existing one but must include an advance in the field.

Reliefs available to Companies

- Enhanced deduction from income – 230% of costs instead of 100%
- Potential cash refund of 14.5% of loss resulting. The net result, due to the enhancement, can be a claim of up to 33% of the losses as a cash refund
- 12% credit against tax bill instead of above

To find out more then please talk to DNS Accountants – specialist valuers may also be advisable to identify and hence maximize costs to include in your claim.

Dividend Waivers

A dividend waiver is when someone legitimately entitled to receive a dividend, decides to waive that right – effectively giving that money back to the company rather than taking it as their taxable income.

Dividend waivers can be a great planning opportunity, however for this reason HMRC tend to keep a keen eye on their use. They must be executed in the right way and with caution so as not to rigger anti-avoidance legislation.

Planning points:-

- A formal deed is required – in appropriate paper form, signed and witnessed
- The deed must be dated before the dividend arises
- There must be good commercial reasons for the waiver, ideally stated in the deed
- Only waive dividend rights occasionally, as repeated use can attract HMRC attention
- Never offer inducements to encourage dividend waivers.

If you are considering a dividend waiver then the fist step is to inform your DNS accountant so it may be properly planned.

Alphabet Share planning

Shareholders own shares and are rewarded by the receipt of dividends. However, there is no need for every shareholder to receive the same benefits. The law says every shareholder of a class of shares has the same rights but a company can create several classes of shares A class, B Class etc. and give each class different rights as regards voting, receipt of dividends and share of capital on sale or winding up.

To discuss this further talk to DNS Accountants

SSAS Pension

A Small Self-Administered Scheme (SSAS) Pension fund is a great way to invest for your future, in a tax-free environment.

In addition to the usual tax exemptions available for pension arrangements, SSAS's can offer other benefits for entrepreneurial business owners including:-

- Purchasing commercial property to be leased back to your business (or third party)
- Loans to the sponsoring employer
- Investing in your business by buying an equity stake
- Transferring assets from you, or your family

If your loved ones or family members also become members of the scheme, then they can make the most of what you leave behind without any inheritance tax penalties.

Please contact DNS Accountants or your Independent Financial Advisor to learn more

Family Investment

If you have a good business that is set for generations to come, then you may like to consider getting all the different generations involved; and stay involved to keep inheritance tax low.

Shares in private limited companies have good inheritance tax breaks, Hence, this structure is also useful if getting older generations to invest in your business, with the tax benefits.

Please note these inheritance tax breaks are only available to trading businesses/assets not investment assets such as rental property.

Family Investment Companies

With the increasing burden of alternative structures, companies have now come into play for family investments e.g. a property portfolio. The company may be structured such that one generation puts in the capital and another reaps the benefits (if any). Additionally, ownership is split such that capital taxes are never assessed on the whole.as there is little anticipate of there ever being a wholesale disposal of assets.

Do take advise about specific rights to be allocated to shares and an accompanying shareholders agreement.

Employee Benefit Opportunities

Whether an employee of your own company, an umbrella company or any other business then there are certain benefits to which you are entitled. There are also a lot of benefits that may save you and/or your employer tax if made available.

So firstly, do check out what your employer already offers to see how you may be able to take advantage and save tax; then see if there are other benefits that you may encourage them to offer. If you are that employer, then you may consider offering them to yourself and your employees.

Annual Function Allowance

A social function (e.g. Christmas Party) held for staff (directors & employees), is a tax allowable business expense; and will not be taxable on those staff members provided these conditions are met:

- It happens every year i.e. is annual
- It is an event i.e. booked not ad hoc
- All staff (at that site) are invited (can include subcontractors)
- Annual cost per head of all such functions does not exceed £150, including VAT.

Others may be invited e.g. family members, but such costs will be termed as entertaining by HMRC, which is not tax deductible for the business.

Childcare Vouchers

The employer managed Childcare Voucher scheme has been closed to new entrants from October 2018 and has been replaced by the HMRC managed Tax-Free Childcare Scheme.

However, employers can continue to support childcare, with tax free vouchers (or direct payments to childcare providers) for all employees who were enrolled on their scheme prior to October 2018, and still have qualifying children under the age of 16.

Computers and Computer Accessories

The provision and maintenance of computer equipment, hardware and software, by an employer is a tax-free benefit, provided it has some business use.

Cycle to Work

HMRC is encouraging employers to provide bikes for employees or assist them to purchase bicycles under the cycle to work scheme.

Accordingly, the purchase of a bicycle (including related safety equipment etc.) by the company and its provision to an employee/director is tax deductible on the company and tax free on the employee if the following conditions are met

- made available to all employees
- used mainly (over 50% of the time) for qualifying journeys

Qualifying journeys are those that are all or part of a journey to, from or between workplaces. Note these are more than just business journeys as defined under the travel rules.

Under the cycle to work scheme the employee further pays his employer a fee in compensation for this benefit – treated as bike hire charge for VAT etc. and deducted as salary sacrifice for PAYE.

Enterprise Management Incentive (EMI)

If your business has assets of less than £30m then you may decide to offer Enterprise Management Incentives (EMIs) to your employees. This is a government backed share option scheme for employees of a UK-based business that is incredibly tax efficient for both employer and employee.

This is a great way to incentivize and retain key staff by sharing the success of the business

Key employees are granted the right to buy shares at a fixed price at some time in the future.

If all conditions are met then

- The employer has given a bonus that costs them nothing up front, and only needs to operate PAYE (at exercise), if the fixed price was discounted from the market value at grant.
- The employee gets cut price shares (paying only the fixed price when they have probably risen in value) – if the shares have not increased in value then they may take the option not to exercise the right to buy.

There are lots of conditions and registration of the scheme with HMRC so do consult DNS Accountants or an expert before setting up an EMI scheme

Eye Tests

If employees regularly use a computer for the performance of their work, then the cost of an eye test is a tax-free benefit if paid for by the employer.

The cost of glasses however is a taxable benefit unless specified via a prescription that it is only for business use.

Mobile

The company can provide an employee with one mobile phone, that may be used for private use, without HMRC considering it a taxable benefit. The contract for the phone must be in the company's name.

A mobile phone is a devise that is designed or adapted for the primary purpose of transmitting and receiving spoken messages. It includes SIM only supply and SMART phones but excludes satnav, PDA, Laptops and devices using VOIP.

Overnight Allowance

There are often personal (non-business) incidental expenses incurred by an employee while travelling overnight on business that would usually be classed as taxable benefits if paid or reimbursed by the company e.g. – Newspapers, laundry or calling home. However, there is an exemption for payments of less than £5 per night for travel within the UK and less than £10 night for travel outside the UK. If this allowance is exceeded, then the full cost is taxable. Hence, it can be more efficient for employees to claim the full allowance rather than charge or claim actual costs.

Pension Contributions

It is compulsory for certain employees to be enrolled into a company pension scheme and for the company to make contributions unless the employee opts out.

The payment of pension contributions direct by the employer, as part of autoenrollment obligations or salary sacrifice is very tax efficient as neither employer nor employee pay tax or national insurance on these contributions.

Auto-enrollment schemes are not always the best option, especially as they involve a lot of admin by the employer, but the tax benefits apply to most schemes so do negotiate with your employer and consult an Independent Financial advisor about your contributions.

Relocation Expenses

Relocation costs of up to £8,000 can be tax free

'qualifying' such costs can include the costs of buying or selling a home, moving costs and buying certain things for a new home.

However, they are only qualifying costs for an employee who is moving area to be nearer to a new job or an existing employee who is changing their place of work; also, the employee's new home must be reasonably close to the workplace compared to their old home.

For more information, kindly get in touch with the DNS team.

Staff Meals

An employee travelling on business can claim subsistence costs e.g. a meal or coffee stop, that are tax free on the individual and tax allowable for the company.

For travel in the UK the tax man has set benchmark subsistence rates that may be used to make the day's subsistence claim, instead of keeping the receipts and claiming actual costs.

Minimum Trip Time	Benchmark Allowance
5 hours	£5
10 hours	£10
15 hours	£15

A further allowance maybe claimed of £10 where the qualifying trip lasts beyond 8pm.

Qualifying conditions for benchmark daily subsistence claims

- The travel must be in the performance of duties or to a temporary workplace, on a journey that is not substantially ordinary commuting
- The employee should be absent from the normal workplace for a continuous period in excess of 5, 10 or 15 hours
- The employee should have incurred a cost on a meal (food and drink) after starting the journey

For travel overseas HMRC has set benchmark rates for Accommodation, Subsistence and some incidentals. These rates are split out into various elements and may be used in full, per hours in the country, or piecemeal with receipts. For a full list, city by city, see: https://www.gov.uk/government/publications/scale-rate-expenses-payments-employee-travelling-outside-the-uk

Termination Payments

If loosing your job or dismissing someone then there are strict rules on what is taxable and what it not. Do make sure you are clear on what payments are being made and whether they are subject to Income tax and/or National insurance

Is this a true redundancy situation? If so then the first £30,000 of redundancy pay is tax free, the rest of the redundancy package is taxable

Normal pay, bonuses and other contractual payments are also taxable

But what else has been paid and under what circumstances?

Is it taxable? Has tax been deducted? E.g.

- Compensation – should be tax free
- Additional pension contributions – depends on whether employees or employers' contributions
- Proceeds from sale of share scheme shares – a mixed bag!

Trivial Benefits

All benefits are subject to tax and NIC, unless covered by a specific exemption or rule. However, to avoid having to report and tax minor benefits there is also a Trivial Benefits allowance, for any non-cash benefit without it's own specific allowance.

However there are still conditions to be met for it to be exempt under this allowance

- Each benefit must have cost the company less than £50
- The benefit must not be able to be exchanged for cash
- There is a limit of £300 pa for a director, and each member of his household
- The benefit must not be a reward, e.g. for work done etc
- There must have been no expectation of receiving the benefit

Joint benefits may be split between staff

Staff can include ex-employees

Examples:-

- Flu jab
- Turkey at Christmas
- Staff celebration lunch on winning a new contract
- Flowers for a birth

Use of Home as Office

If an employee is contracted to work from home, then he can claim a percentage of the additional costs of using his home for business e.g. electricity bill, broadband charges, telephone bill, metered costs of gas and water. The expenses of a fixed nature such as rent, or mortgage cannot be claimed as they would have been paid whether or not the employee worked at home.

However, if you are using your home-office only for paperwork and accounting, you may prefer to claim the £4 per week allowance rather than doing the detailed calculations.

Vehicles

The company may provide vehicles to its employees for business use, but there are different benefit in kind tax rules dependent on the type of vehicle.

There is no benefit in kind if the vehicle is a Lorry, or other commercial vehicle – but not most people's choice for a vehicle to use personally.

If classed as a van and actually used privately, then there is a fixed benefit in kind rate for the Van and another for the fuel. Home to work journeys do not count as private in this context, so this can be a nice tax efficient benefit if no private miles or a lot of private miles are done in this type of vehicle.

If the vehicle made available is a car then there are complex rules for arriving at the benefit in kind for the car, and again for the fuel. These calculations are based on the value of the car when it came out of the factory, its emissions and its fuel type, but not actual private use.

HMRC are encouraging the purchase of electric cars so a car with emissions less than 50 and a range of over 130 miles can have a taxable benefit as low at 2% of list price from April 2020.

Some cars made available by the company to employees can be exempt from taxable benefits if they qualify as 'pool cars'. Pool cars are shared by employees, for business use only, and normally kept on the business premises.

Conclusion

This guide is only a quick insight into what may be available at the time of writing. Each circumstance is unique and HMRC is always changing the rules and guidance for implementation.

Please speak to DNS Accountants about what is currently available to you before taking any actions.

There is no limit to tax saving and planning, and there may be new opportunities available to you. We are passionate for our clients to pay the least amount of tax legally.

Accounting Group

Get in Touch

DNS ACCOUNTANTS

03300 886 686

info@dnsaccountants.co.uk

www.dnsaccountants.co.uk

DNS House, 382 Kenton Road, Harrow, Middlesex, HA3 8DP