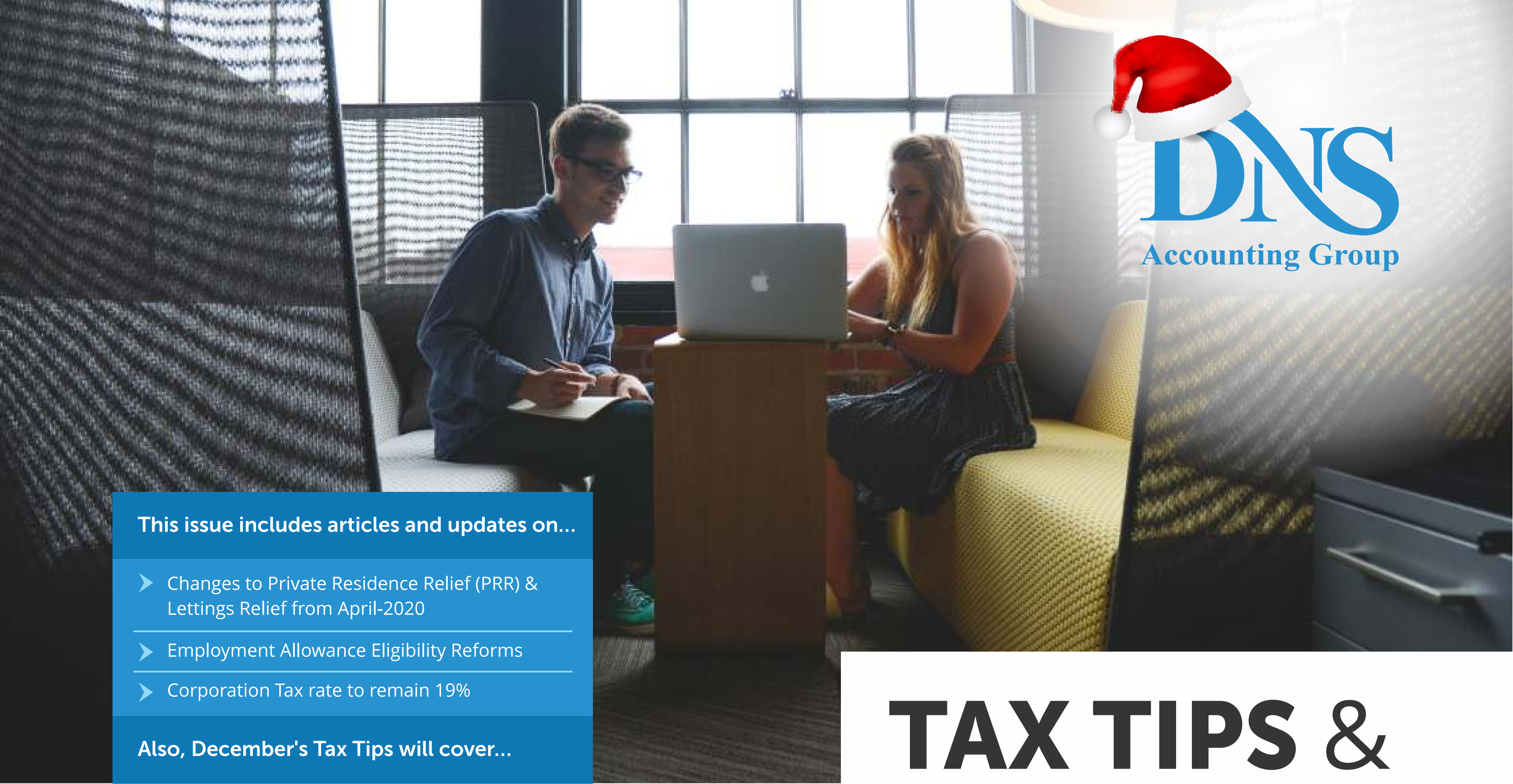

TAX TIPS & News

This issue includes articles and updates on...

- Changes to Private Residence Relief (PRR) & Lettings Relief from April-2020
- Employment Allowance Eligibility Reforms
- Corporation Tax rate to remain 19%

Also, December's Tax Tips will cover...

- Claiming Use of Home as Office for Directors
- Annual Christmas Party for Employees
- Personal Savings Allowance
- Relocation Expense of £8,000

Newsletter December 2019

WELCOME

Welcome to December's Tax Tips & News newsletter. Things have been moving very quickly in UK tax and politics, and with the general election less than two weeks away, I cannot emphasise how crucial the upcoming elections will be in changing the landscape of the UK economy.

Do remember that paying taxes is inescapable, but every taxpayer in the UK is entitled to arrange their tax affairs to ensure they are paying the right or minimum amount of tax. This can be achieved with the help of some basic tax planning and the generous reliefs available. Please ensure you book your Tax Review Meeting to see if you are taking advantage of all the available allowances.

The Tax Tips & News newsletter was started to make you aware of the changes happening in the tax world and help you maximise on the available benefits. We hope you continue to find it informative and helpful.

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- Personal Savings Allowance and Starting rate for savings
- Relocation Expense of £8,000

Finally, after reading this newsletter, if you would like to discuss anything in more detail please contact your account manager and they will arrange for the appropriate team member to contact you.

Best Wishes,

Sumit Agarwal *ACMA, ACA (India)*
Founder & Managing Director

Changes to PRR & Lettings Relief – Selling your home may leave you with a tax bill after 5th April 2020.

For decades, Private Residence Relief (PRR) and Lettings Relief have provided some valuable additional relief, which have helped individual landlords to reduce their Capital Gains Tax (CGT) liability, when they come to sell their property which was also their home at some point.

Further to the Stamp Duty and Land Tax (SDLT) increase and mortgage interest restriction, the government has also announced the restrictions to lettings relief and a reduction of the deemed occupancy period considered for the purpose of PRR relief from 6 April 2020. These changes will have a significant effect on the amount of CGT calculations by individuals who are planning to sell rented property which at some point during their period of ownership has been their home.

Lettings Relief

Currently, CGT relief of up to £40,000 (£80,000 for a couple) is available for those who let out a property that is or has been their home. This enables landlords to claim CGT relief, even if they might not have lived in the property themselves for a long time.

From April 2020, this relief will only apply to landlords who are in shared occupancy with their tenant at the time of disposal.

Final period exemption

The final period exemption currently means that any gains occurred in the final 18 months of ownership will be exempt from CGT, even if where the landlord is not sharing his property with the tenant during that period.

From April 2020, the final period exemption will be limited to the last 9 months of deemed ownership.

Impact on the amount of CGT payable

By way of an example, Mr Ricky sold a property on 15 September 2019 which he has lived in for 5 out of 10 years of ownership and made a gain of £100,000.

Under the current scenario, Mr Ricky will take the benefit of PRR for five years (being his period of occupation of the property) plus the last 18 months exemption for deemed ownership of the property (so 6 and a half years or approx. 65% of the period of ownership). It means that £65,000 of the gain will be exempt from CGT. The remaining £35,000 is capital gain. likewise, under the current scenario he would be eligible for lettings relief and he doesn't need to pay any CGT as it's covered by letting relief.

Suppose that he sells his property after 6th April 2020. Under the new rules, he will take the benefit of PRR for five years (being his period of occupation of the property) plus the last 9 months exemption for deemed ownership of the property (so 5 years and 9 months or approx. 58% of the period of ownership). It means that £58,000 of the gain will be exempt from CGT. The remaining £42,000 is capital gain and he would not get the benefit of lettings relief available because he was not sharing occupancy with his tenant at the time of disposal. His CGT liability will therefore be £11,760 (presuming all his gains will be taxed at 28% and annual exemption is utilised somewhere else).

This will put an additional liability of £11,760 (which he needs to pay with HMRC within 30 days of selling with formal declaration if it's UK residential property)

Concerns for Landlords

The changes will be related to those property owners who are presently letting out their old home.

There may be cases where landlords consider selling their old home before these changes come into effect, but the overall cost implications should be weighed up carefully. Considering these changes, we would encourage any landlord who might be considering a sale to review their portfolios and get appropriate advice.

Employment Allowance Eligibility Reforms - £3,000 of generous employer allowance to be restricted.

In the UK, a few prescribed businesses are eligible to claim an Employment Allowance. This allowance helps businesses to reduce annual Employer's National Insurance Contributions (NICs) liability by up to £3,000 if you're an eligible business. However, from 6 April 2020, the government is changing the criteria, meaning not all businesses who currently benefit will be able to claim the allowance in the 2020/21 tax year.

Pre April 2020

Until 5 April 2020, most businesses can claim a reduction in NICs they pay. However, you can't claim the employment allowance if:

- you're the director and the only employee paid above the Secondary Threshold.
- you employ someone for personal, household or domestic work (like a nanny or gardener) - unless they're a care or support worker.
- you're a public body or business doing more than half your work in the public sector (such as local councils and NHS services) - unless you're a charity.
- you're a service company working under 'IR35 rules' and your only income is the earnings of the intermediary (such as your personal service company, limited company or partnership).

After 6 April 2020, only small businesses (with a NIC bill of £100,000 or less) who do not fall under any of the above condition will be eligible to claim the employment Allowance.

The allowance was intended to entice and support employers to grow their teams and hire new staff. However, as the allowance is a flat rate of £3,000, it does not act as major contributing factor for large businesses to grow and hire more personnel. This is one of the reasons why the government has decided to scrap the scheme for the medium to large sized companies.

No relief for Companies - Corporation Tax rate to remain 19%

The former Chancellor Philip Hammond at Budget 2017, pledged to cut the Corporation Tax (CT) rate by 2% to 17% from 1 April 2020, but at the CBI conference Prime Minister (PM) told that this would have cost £6bn to the government and will not go ahead. The funds will be used for investment in NHS and improve the public health services.

PM Johnson also said that the focus will be to support SME by cutting employer national insurance contributions (NICs) and increasing the amount of annual research and development (R&D) tax relief.

The reduction of the Corporation Tax rate to 17 percent for the financial year commencing 1 April 2020 (FY20) has already been legislated for in Finance Act 2016. Therefore, the legislation will need to be amended post-election to maintain the CT rate at 19 percent for the Financial Year 2020.

The position will be clear once the budget is revealed by the new government.

Director Running an Office from Home - How to claim the maximum?

If you are working from home and you are an employee or director of the company, then you can reclaim certain expenses up to certain limits only or at a fixed rate prescribed by HMRC.

Further you can only claim for things to do with your work, for example, business telephone calls. You cannot claim for things that you use for both private and business use, for example, rent or mortgage cost.

There are broadly two ways to claim these expenses: -

Flat rate basis

HMRC allows you to reclaim a flat rate of up to £4 a week (£18 a month) to cover your additional costs if you work from home. You will not need to keep any records.

Factual/Actual cost basis

If you think that you may able to prove by way of a 'fair and reasonable' calculation that you are incurring additional costs because of working from home and the actual costs are above of flat rate basis i.e. £4 per week, then you may claim the higher sum if HMRC agrees. You will need supporting evidence to demonstrate it in case of revenue audit or abjection.

There is a certain difference in rules for directors and employees who work from home. They are not allowed to claim rent or mortgage interest while the sole trader can. However, a director may able to rent out part of his property to the company and charge a market rent for the use of the property, which can help in claiming more than £208/year. The director should document the transaction and maintain proper records, otherwise HMRC can challenge it and the rent paid may be classified as additional salary which would be subject to Tax and Class 1 NICs.

For the company, the rental payments are deductible from its profit and will reduce CT liability and the director will need to disclose the rental income in their tax returns and can deduct allowable expenses like electric, light, heating, broadband etc. after appropriate apportioning. If the rent is £1,000 or less, then it will be covered under the property allowance.

Read more

Tip: *Create a rental agreement between the company and yourself and ensure board minutes are prepared detailing the transaction.*

Christmas Party for Employees – Spend up to £150 per head

Employers may meet the cost of Christmas party or annual party for staff without triggering any tax liability provided its:

- available to employees generally or
- available to employees generally at one location, where the employer has more than one location.

For the expense to not trigger any tax liability, it should be an annual party or similar annual function. This does not mean that the same event must be held every year but something that is one-off which may not be repeated again like an award celebration event for the company can trigger tax liability for employees.

Further no liability to income tax arises if the cost per head of the party does not exceed £150. The cost per head is the total cost including - transport, incidental accommodation and VAT, **divided by the total number of people** (not just employees) attending the event.

If the cost is more than £150 per head, then it is fully taxable not just the excess over £150. Remember £150 is not an allowance but the maximum the company can spend for it to not trigger tax liability for employees.

Tip: *The company can hold any number of events in a year. Provided the total cost of all the events is less than £150 per head, none of the expense will trigger a personal tax liability for the employees.*

Personal Savings Allowance (PSA) and Starting Rate for Savings: Earn tax-free interest from your company

PSA provides you to earn up to £1,000 interest tax-free, if you're a basic-rate (20%) taxpayer, or £500 if you're a higher-rate (40%) taxpayer.

Additional-rate taxpayers do not get a PSA, so if you earn more than £150,000 each year, you'll need to pay tax on all your savings income.

Is the personal savings allowance applied to all kind of savings income?

It applies to any interest income you receive except for ISA's and Premium bonds as they are already tax-free and do not use the allowance.

Working Example:

Assuming a person earns £22,000 (basic rate taxpayer) a year in employment income only and receives £2,000 in account interest – they won't pay tax on the interest up to £1,000. But will need to pay basic rate tax (20%) on the remaining £1,000.

If the same person earns £65,000 (higher rate taxpayer) a year in employment income and receives £450 in account interest – they won't pay any tax because it's less than £500 allowance.

What is the 'savings starter rate'?

It is an extra tax saving tool as well as personal tax allowance and if you are earning a low income. It can help reduce the personal tax liability or to make it nil, if you earn only savings income.

The 'starting rate for savings' is £5000, meaning if someone's total taxable income is equal to or below their personal tax allowance threshold (£12,500) and only other income they earn is savings income, they will not pay any tax on savings up to £5,000.

For instance, consider a person whose total taxable income is £20,500 in 2019-20, which comprises of £12,500 salary, £6,000 interest and £2,000 dividends; they get away by not paying any personal tax on income by making use of all the allowances. Order of the allowance will be; first the personal allowance (£12,500 for 2019-20), then the £5,000 starting savings rate at 0%, the personal savings allowance worth up to £1,000 for basic rate taxpayer and finally dividends allowance of £2,000.

When HMRC calculates the tax, they'll first consider all your income from various other sources, and then from your savings income. For a more detailed example refer here.

***Tip:** If you are a director with additional funds or savings, you could loan some funds to your company at a market/commercial interest rate and earn tax-free income. For company the interest paid will be deductible as an expense for CT purposes.*

Is your employee changing their job location? You can pay £8,000 tax-free to help them move home.

Generally speaking, moving expenses are not tax deductible for employees. But if an employer pays for relocation costs, employees may not have to pay tax on them. This is called a relocation allowance.

Employees don't need to pay tax on moving expenses if they satisfy all the underneath conditions:

- They moved because of change of job, they've been transferred or because employer moved the business to a new location.
- The employer paid or reimbursed the cost
- The employee needs to declare the costs on their tax return within a year from the end of the tax year in which moved/relocated. So, if they shifted in October 2016, they have until 5 April 2018 to declare it in their tax return.
- Their old home isn't within reasonable commutable distance from work, but new home is.

HMRC will consider it relocation if an employee has changed their main residence i.e. place should be where they were spending most of the time on a permanent basis with family. In other words, they don't have to sell their previous home (or opt out from the lease if any) to qualify.

An employer can pay moving expenses up to £8,000. The relocation allowance is a tax exemption, not a tax deduction; meaning the benefit is restricted to what the employer pays. So, if an employer pays £5,000, the employee will get only this amount as an exemption. Employee would not be able to claim the rest £3,000 in their tax return.

For more information on what expenses can be paid please click here.

That brings us to the end of this month's newsletter. I would like to finish by wishing you a Merry Christmas and a Prosperous New Year. Do watch out for the post as we have arranged a small gift for all our clients.

Best Wishes,
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Founder & Managing Director

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