Copson Grandfield
CHARTERED ACCOUNTANTS

NEWSLETTER

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Welcome to the Copson Grandfield Newsletter

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End of Year Tax Planning

Now that the Self-Assessment deadline has passed, and the **5th April 2021** is fast approaching; it is time to focus of end of year tax planning.

This edition of our Newsletter will therefore focus on the end of the financial year; together with tax saving hints, tips and potential pitfalls.

Whilst it may seem obvious, it is essential that you pay close attention to the level of your earnings, especially if you are close to exceeding one of the key income thresholds; namely the Higher Rate threshold (£50,000), £100,000 (where the Personal Allowance becomes tapered), and the Additional Rate threshold (£150,000).

The amount of tax you pay, together with your entitlement to certain benefits/ allowances can rapidly decrease by breaching these thresholds.

One particular bone of contention amongst accountants and taxpayers is the effective rate of tax for those earning £100-£125K per annum. If you fall within this bracket, you not only pay tax at 40% on your earnings (from most sources), but you also start to lose your Personal Allowance.

The standard Personal Allowance, is currently £12,500, but this tax free element starts to taper by £1 for every £2 over the £100K threshold, until it is eventually reduced to Nil. The above taper, combined with the 40% tax rate creates an effective rate of 60%.

There are however a number steps that can be taken in order to avoid this. One such measure is by making a Personal Pension Contribution before the end on the tax year.

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If you are able to do so, any Gross Contribution made can be deducted from your earnings for the purpose of determining the £100K trigger point; thereby limiting, or in some case even preventing any reduction in the Personal Allowance.

This action not only extends the Basic Rate Band and potentially preserves the Personal Allowance; don't forget that it also increases your pension pot thereby helping you save for your eventual retirement.

The same principal of making a Personal Pension Contribution also applies (albeit to a lesser extent) to those close to the Higher Rate threshold (£50K).

Similar steps can be taken to ensure you do not breach Basic Rate threshold. This is particularly important if you are in receipt of Child Benefit, since Personal Pension Contributions are also deducted when calculating the High Income Child Benefit Charge (HICBC).

There are also other ways to limit the damage of being caught by either the £50,000 (higher rate threshold) or £100,000 - £125,000 income bracket.

For example; Charitable Donations can provide relief in a similar fashion to the above.

Interaction between your various business entities may also hold the key and can help to mitigate or reduce a potential tax problem.

Remember, it may not be possible to fix an issue after the event, therefore if you are close to either the £50,000, or £100,000 income threshold, we urge you to contact us before the end of the tax year.

Tax Tip: Make use of your Allowances & Tax Bandings

If you're married or in a civil partnership, you may be able to save money by structuring your finances as a couple; ensuring that you use both of your tax free allowances and Basic Rate Bands effectively.

There are attractive tax rates/ allowances for both Savings & Dividend income (alongside the standard Personal Allowance) which with careful planning can be utilised in order to save you tax. These favourable rates can be doubled (in some cases) by simply spreading income between spouses.

This principle can be extended to other investments, such as ISA's. The ISA allowance for 2020/21 is £20,000 per person; however a married couple can invest £40,000 per year. Income received from ISA's are free of both Income Tax & Capital Gains Tax. If you do not make use of your ISA allowance it cannot be carried forward, so "use or lose it"!

SEISS – Taxation of Grants

Those of you who are Self-Employed (or in Partnership) may have claimed a grant through the 'Self Employment Income Support Scheme' (SEISS) due to loss of earnings in relation to Covid-19.

Whilst these grants have provided a short-term lifeline for those affected; don't forget that any amounts received will be subject to Income Tax and Class 4 National Insurance Contributions.

The first, second and third SEISS grants will be taxable in 2020/21 (alongside any other earnings), in which case the associated tax and NIC will need to be paid by **31 January 2022**.

*It is not yet known when grants received under the fourth round of the scheme will be taxable.

It is worth noting that **any amounts received will need to be included in the 2020/21 tax year, regardless of your accounting period.** This creates a potential problem for those with a year end that differs from 5th April/ 31st March.

Example: If you have a 30 April 2020 year end; in 2020/21 you will be taxed on profits made from 1 May 2019 to 30 April 2020; an accounting period which is relatively unaffected by Covid-19 (since it mostly predates the first lockdown).

If a claim was subsequently made under the SEISS scheme, you would have to report the grant income alongside your regular accounting period, which in this case would include 11 months of 'normal' trading.

This treatment creates a spike in your taxable income (since you are now effectively reporting long period in 2020/21). This has the potential to push an otherwise basic rate taxpayer into the higher rate. Conversely income the following tax year would then be much lower, since this covers the actual lockdown period(s), with presumably fewer/ no further grants going forward.

It is also worth noting that this income will be factored into an individual's eligibility for universal credit, the level of student loan repayments collected through Self-Assessment, the High Income Child Benefit Charge and the calculation of 2021-22 payments on account.

A way to mitigate this problem could be to adjust your accounting period so that the grants are taxed in the accounting period which has had a profit reduction due to the pandemic.

If you're concerned about how these grants will affect your taxable income, please do not hesitate to contact us.

CGT - 30-Day Reporting & Tips

2020/21 saw significant changes to the Capital Gains Tax (CGT) regime in relation to the disposal of residential property. Prior to 6th April 2020 gains were reported and paid through Self-Assessment following the year of disposal (as long as 22 months after the sale in some cases), however taxpayers are now expected to report and pay any CGT due within 30-days of conveyance.

We therefore need details of any pending disposals prior to completion so that we can calculate the gain and ensure that we meet this new deadline. If you've already sold a property, you must notify us **immediately**, so that we can file the declaration and you can pay any CGT on time.

In addition to the above; 2020/21 also saw further restrictions to Private Residence Relief, with the final period of 'deemed occupancy' being reduced to 9 months (previously 18). Meanwhile Lettings Relief was also abolished in the majority of cases. The above actions not only increased the potential CGT due, but also accelerated the payment deadline.

CGT Tip: Transferring a percentage of ownership to a Spouse/ Civil Partner prior to disposal can enable you to make use of two Annual Exemptions; this can be worth up to £3444.00, using current rates.

EIS, SEIS & VCT Relief. You could also consider the 'Enterprise Investment Scheme' (**EIS**), or 'Seed Enterprise Investment Scheme (**SEIS**) in order to reduce your CGT liability. 'Venture Capital Trusts' (**VCT**'s) can also provide some attractive tax reliefs.

For example, investing in EIS shares can allow you to defer, or even mitigate a CGT liability by using 'EIS Deferral Relief', since this allows a taxpayer to freeze a gain by the amount invested. Gains are typically brought back into charge when the shares are sold, however by disposing of the shares gradually it is possible to fully alleviate any CGT due.

Example: A Higher Rate taxpayer has a gain of £61,500. After deducting the Annual Exemption of £12,300, they would typically be expected to pay CGT on the remaining £49,200 at 28% (£13,776). If they invest £49,200 in EIS Shares they would be able to claim EIS Deferral Relief, in which case they would pay no CGT at this point. The EIS shares could then be disposed of later on in say 4 tranches/ tax years, making use of the Annual Exemption each year, thereby bringing the original gain back into charge gradually but below the taxable threshold!

The rules and conditions for EIS, SEIS and VCT are complicated and the associated reliefs/ risks can vary considerably. It is therefore essential that you indentify which type of investment (if any) is right for you. Please do not hesitate to contact us if you would like any further information on the above.

Tax Tip: IHT – Gifts & Annual Allowances

Each tax year you can make a range of tax-free gifts. These leave your estate immediately so won't be taken into account when valuing your estate for inheritance tax (IHT) purposes.

Exempted gifts:
You can give away £3,000 worth of gifts each tax year (6 April to 5 April). This is known as your 'annual exemption' *not to be confused with the CGT Annual Exemption.

You can also carry any unused annual exemption forward to the next year - but only for one year.

Each tax year, you can also give away:

Wedding or Civil Ceremony gifts of up to £1,000 per person (regardless of the relationship); this limit is increased to £2,500 for a grandchild or great-grandchild, and £5,000 for a child.

Normal gifts out of your income, for example; Christmas or birthday presents. These can also exempted gifts, however please note that you must be able to maintain your standard of living after making the gift for it to be exempt.

Payments to help with another person's living costs (such as an elderly relative or a child under 18 years of age) can also be 'exempted'.

Gifts to charities and political parties are also exempt.

The above gifts drop out of your estate on day one; therefore making use of these allowances is a great way to distribute wealth amongst family and friends, whilst also reducing your exposure to inheritance tax.

Please note that you can use more than one of these exemptions on the same person - for example: you could give your grandchild a gift for their birthday and wedding in the same tax year.

Small gifts up to £250:
You can also give as many gifts of up to £250 per person as you want during the tax year, as long as you have not used another exemption (see above) on the same person.

Any gifts outside of the above will typically be caught by the '**7 year rule'**, in which case you will need to survive the gift(s) by 7 years before they drop out of your estate for IHT purposes.

Do you know the current value of your estate? and have you considered IHT planning?

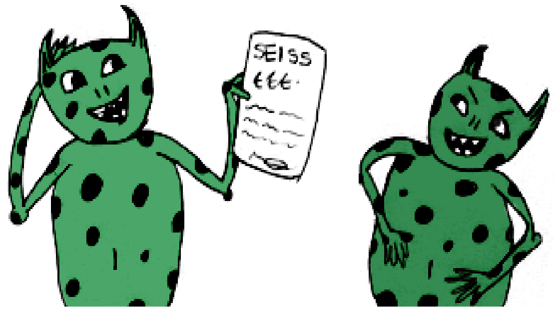
We would be happy to have an initial conversation with you regarding this matter.

Tax Tip: Don't forget your Annual Pension Allowance

The standard annual pension allowance is currently £40,000 for most taxpayers; exceeding this limit will normally incur a charge.

However many people don't' realise that (subject to a number of conditions), you can also 'carry forward' any unused annual allowance from the previous three tax years, allowing you to go back and top up your pension pot retrospectively.

If this is something that you are thinking of doing, act fast; don't let any unused allowance slip away!



"My SEISS payment has come through… New Car? Big TV? Perhaps a Hot Tub?"
"Ummm, isn't this money taxable???"

2019/20 - Self-Assessment

The submission deadline for 2019/20 Self-Assessment was **31/01/2021**, however it was announced on 25/01/2021 that HMRC would not issue a penalty if your return was submitted before **28/02/2021**; effectively extending the deadline by a month.

This eleventh hour announcement offered a lifeline to those who genuinely could not meet the deadline; however it is worth noting that the payment deadline remained unchanged, and that HMRC will still charge interest and surcharges on any outstanding amounts.

If you still have an outstanding tax return, we urge you to contact us **as a matter of urgency** so that we can file before 28 February 2021, and avoid the automatic £100 penalty, whilst also minimising any interest/ surcharges due.

VAT Reverse Charge for Building and Construction Services

Important - From 1 March 2021 the 'Domestic VAT Reverse Charge' comes into effect. This is effectively an extension of the Construction Industry Scheme and applies to transactions between VAT-registered contractors and sub-contractors registered for CIS.

In simple terms, those supplying construction services to a VAT registered customer will no longer have to account for the VAT. Instead, the customer will need to account for it and pay the VAT directly to HMRC.

Example: for those affected; after 1st March 2021, when you do £1,000 of standard rated work, the following will occur:

- You will invoice for £1,000 showing your supply as standard rated but NOT adding the £200 VAT to the amount due.
- You will be paid £1,000 (rather than £1,200)
- The person paying you will then show £1,000, plus £200 VAT as both an input and an output (therefore gaining no advantage from this change)
- Because you have not been paid the £200 VAT, you would no longer owe this to HMRC, it has in essentially been paid for you.

This change will affect your cash flow since you will no longer be paid the VAT element.

If you do work for 'end consumers' like domestic customers, or for customers who are not VAT registered, you will still need to charge them the VAT as you do now.

HMRC believes that the above will help combat fraud, whereby construction businesses charge VAT but then disappear without paying it over the HMRC… the intention is to make this kind of fraud impossible by moving the VAT charge along the supply chain.

For more information on whether this affects you, and how you need account for these changes, please do not hesitate to contact us. Additional information can also be found via the links below:

https://www.sage.com/en-gb/cp/cis-domestic-reverse-charge/
https://www.gov.uk/guidance/vat-reverse-charge-technical-guide

Accountants are a Joke!

1. Where do homeless Accountants live? In a tax shelter.
2. What do you call an Accountant without a calculator? Lonely.
3. Why did the Accountant cross the road? They looked in the file and that's what they did last year.