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RATES AND ALLOWANCES

Personal allowance

The personal allowance is increased to £12,500 for 2019/20, subject to abatement where adjusted net income exceeds £100,000. The personal allowance applies equally to Scottish and Welsh taxpayers.

The allowance is reduced by £1 for every £2 by which adjusted net income exceeds £100,000. This means that for 2019/20, individuals with income in excess of £125,000 will not receive a personal allowance, while those whose income falls between £100,000 and £125,000 will receive a reduced personal allowance.

Marriage allowance

The marriage allowance allows one spouse or civil partner to transfer 10% of their personal allowance to their partner, provided that neither pays tax at the higher or additional rates. The marriage allowance is £1,250 for 2019/20, allowing a couple to save tax of £250.

Income tax rates and thresholds

For England and Northern Ireland, the basic rate band is increased to £37,500 for 2019/20, raising the rate at which higher rate tax becomes payable to £50,000. The additional rate threshold remains at £150,000.

The basic rate of tax remains at 20%, the higher rate at 40% and the additional rate at 45%.

The rates also apply to the savings and dividend income of Scottish and Welsh taxpayers.

Scottish rates of income tax

As for 2018/19, there are five rates of Scottish income tax for 2019/20. The Scottish rates of income tax apply to the non-savings non-dividend income of Scottish taxpayers.

The Scottish starter rate of tax of 19% applies to the first £2,049 of taxable income, the Scottish basic rate of 20% applies to taxable income between £2,050 and £12,144, the Scottish intermediate rate of 21% applies to taxable income between £12,145 and £30,930, the Scottish higher rate of 41% applies to taxable income between £30,931 and £150,000 and the Scottish top rate of 46% applies to taxable income over £150,000.

Welsh rates of income tax

From 6 April 2019, Welsh taxpayers pay the Welsh rate of income tax on their non-savings non-dividend income. For 2019/20, the Welsh rates of income tax and tax bands are the same as for England and Northern Ireland.

Taxation of dividends

The dividend allowance remains at £2,000 for 2019/20 and is available to all individuals regardless of the rate at which they pay tax. Dividends falling within the allowance are taxed at a zero rate.

Taxable dividends, which are treated as the top slice of income, remain taxable at 7.5% to the extent that they fall within the basic rate band, at 32.5% to the extent that they fall within the higher rate band and at 38.1% to the extent that they fall within the additional rate band.

Savings

For 2019/20, the savings allowance remains at £1,000 for basic rate taxpayers and at £500 for higher rate taxpayers. Additional rate taxpayers are not entitled to a savings allowance.

The savings starting rate of tax remains at 0%. This rate is only available to the extent that taxable non-savings income is not more than £5,000. Where taxable non-savings income exceeds £5,000, the starting rate band is reduced by the excess.

Capital gains tax

The capital gains tax annual exemption is increased to £12,000 for 2019/20. The capital gains tax rates remain at 10% to the extent that taxable income and gains do not exceed the basic rate limit of £37,500 and at 20% where income and gains are more than this limit. Residential property gains are taxed at a higher rate of 18% to the extent that income and gains are below the basic rate limit and at 28% otherwise.

Corporation tax

The corporation tax rate remains at 19% for the financial year 2019, starting on 1 April 2019.

VAT threshold

The VAT threshold remains at £85,000 for 2019/20 and the de-registration threshold remains at £83,000.

National Insurance contributions

For 2019/20 the lower earnings limit for Class 1 National Insurance purposes is increased to £118 per week, the primary and secondary thresholds are increased to £166 per week and the upper earnings limit is increased to £962 per week. The secondary threshold for under 21s and the apprentice upper secondary threshold, which are aligned with the upper earnings limit, also rise to £962 per week.

The main rate of employee Class 1 National Insurance contributions, payable on earnings between the primary threshold and the upper earnings limit, remains at 12% and the additional primary rate, payable on earnings in excess of the upper earnings limit, remains at 2%. The employer rate, payable on earnings above the relevant secondary threshold, remains at 13.8%, as does the Class 1A and Class 1B rate.

The employment allowance also remains at £3,000 for 2019/20.

The self-employed will continue to pay Class 2 and Class 4 contributions for 2019/20. Class 2 contributions are payable at a rate of £3 per week for 2019/20 where earnings exceed the small profits threshold, which is set at £6,365 for 2019/20. Class 4 contributions are payable at the main rate of 9% on profits between the lower profits limit, set at £8,632 for 2019/20, and the upper profits limit, set at £50,000 for 2019/20, and at the rate of 2% on profits in excess of the upper profits limit.

The rate of voluntary Class 3 National Insurance contributions is set at £15 per week for 2019/20.

MAKING TAX DIGITAL

MTD for VAT

Making Tax Digital (MTD) for VAT is mandatory from the start of the first VAT accounting period which begins on or after 1 April 2019 for most businesses with VATable turnover over the VAT registration threshold of £85,000.

Under MTD for VAT businesses are required to keep digital records and to send their VAT returns to HMRC using MTD-compatible software. It will no longer be possible to submit returns using HMRC's free VAT return service. Your adviser can file your VAT returns on your behalf.
It is important that businesses are ready for MTD for VAT and that they have appropriate systems in place by the MTD start date.

Speak to us about what MTD for VAT means for your business and what you need to do in order to comply, if you are in any doubt.

PROFIT EXTRACTION

Profit extraction strategy for 2019/20

For personal and family companies, it is generally tax efficient to extract profits in the form of a small salary, with any further profits being taken as dividends.

Assuming that the personal allowance has not been used elsewhere, if the company is one which is not entitled to the National Insurance employment allowance (as is the case where the sole employee is also a director), or if the employment allowance has been used up, the optimal salary for 2019/20 is generally one equal to the primary and secondary threshold of £719 per month (£8,632 per year). If the employment allowance is available, it is beneficial to pay a higher salary equal to the personal allowance of £12,500.

The dividend allowance is set at £2,000 for 2019/20. This is available to all taxpayers, so consider paying a dividend of at least £2,000 to all shareholders to utilise the allowance. If shareholders have not yet used their dividend allowance for 2018/19, consider paying a dividend before 6 April 2019 to use up the allowance, and also any unused personal allowance. However, remember it is only possible to pay dividends to the extent that the company has sufficient retained profits from which to pay them.

The optimal profit extraction strategy will depend on individual circumstances. Speak to us so we can advise on what is the best way for you to extract profits from your company.

ENTREPRENEURS' RELIEF

New personal company test

Entrepreneurs' relief reduces the amount of capital gains tax payable on the disposal of qualifying business assets. The availability of the relief is contingent on the qualifying conditions being met.

Entrepreneurs' relief is available for the disposal of shares and securities in a personal company. The definition of a personal company was changed with effect from 29 October 2018. Prior to that date, a company was an individual's personal company if the individual held at least 5% of the ordinary share capital of the company and that holding gave the shareholder at least 5% of the voting rights in the company. From 29 October 2018 two further tests apply – the individual must also be beneficially entitled to at least 5% of the distributable profits and at least 5% of the assets available for distribution to equity holders in the event of a winding up.

The new test must be met if entrepreneurs' relief is to be available in respect of disposals on or after 29 October 2019.

If you are planning on disposing of shares in your personal company, speak to us to check that your company meets the new definition of a personal company.

Extension of the qualifying period

For entrepreneurs' relief to be available, the qualifying conditions must be met throughout a minimum qualifying period. The minimum period is to increase from one year to two years for disposals on or after 6 April 2019.

Forward planning is essential where a disposal is planned to ensure that the conditions have been satisfied throughout the relevant minimum period. Speak to us to determine the optimal disposal date to ensure that relief is not lost.

CAPITAL ALLOWANCES

Temporary increase in the annual investment allowance

The annual investment allowance is increased from its permanent level of £200,000 to £1 million for two years from 1 January 2019 to 31 December 2020. The allowance reverts back to £200,000 from 1 January 2021.

The allowance allows capital expenditure up to the level of the available allowance to be deducted in computing taxable profits, providing relief for the expenditure in the period in which it is incurred. While the chargeable period falls wholly within the period from 1 January 2019 to 31 December 2020, the annual investment allowance for that period is £1 million. However, where the period spans either 1 January 2019 or 31 December 2020, transitional rules apply to determine the amount of the allowance for the period. Speak to us to find out what allowances are available to you and how best they can be used.

New structures and buildings allowance

A new capital allowance for structures and buildings was introduced with effect from 29 October 2018. Structures and buildings allowance is available for eligible construction costs incurred in respect of non-residential buildings. The relief is given at a rate of 2% a year on a straight line basis, writing the cost off over 50 years. Relief is not available where the contract for the construction work was entered into before 29 October 2018.

If you are planning construction work on a non-residential building, speak to us to find out whether you will be able to benefit from the new allowance.

MAIN RESIDENCE RELIEF

Reduction in the final period exemption

Where a property has been occupied as the taxpayer's only or main residence at some point during the period of ownership, the final 18 months of ownership are exempt from capital gains tax (even if the property is not the taxpayer's main residence during that period). At the time of the 2018 Budget, the Government announced that they plan to reduce the final period exemption to nine months with effect from April 2020.

If you are planning to dispose of a property which has been your main residence for some but not all of the time that you have owned it, speak to us to confirm what the reduction in the final period exemption may mean for you.

Curtailment of lettings relief

Lettings relief is a useful relief which can reduce the amount of the gain that is taxable on a property which has been let and which has also been a main residence at some point by up to £40,000.

At the time of the 2018 Budget, the Government announced that they planned to restrict the availability of lettings relief to cases where the owner of the property is in shared occupation with the tenant. The intention is for the new rules to come into effect from April 2020.

If you have a property that you let out, speak to us to find out how you can benefit from the availability of lettings relief in its current, more generous, form.

This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases, so please contact us for personal advice on your own affairs.