DO YOU REALLY NEED TO PAY HIGHER RATE TAX?

Call: **01323 644579**
Email: john@caladine.co.uk
www.caladine.co.uk

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"Whilst most people will agree that we pay tax to keep the country running, most of us would be happier if we could find a way to persuade the taxman to take a little less of our hard earned cash."

There is a simple way to for most of us to pay less tax. It is perfectly legal, and all it takes is a little forward planning and making careful tactical use of your pension.

The key to cutting your tax is to understand tax thresholds. Most of us are concerned with two thresholds, the personal allowance threshold, the point at which we start paying income tax, and the higher rate income tax threshold, where tax starts to be charged at 40%.

There is also an additional rate threshold for those earning over £150,000 which sees them paying 45% tax.

The Chancellor confirmed in the recent budget that these thresholds would be revised upwards. The lower, personal allowance will rise from £11,850 to £12,500 from next April. The threshold for higher rate tax will rise from £46,350 to £50,000.

So, for the 2019/20 tax year, if you want to avoid paying 40% tax, you need to be earning under £50,000 a year. You probably don't want a salary reduction, but there is another way to reduce your taxable salary.

The contributions you make into your pension are deducted from your salary before your tax is calculated. So, in effect, paying into your pension reduces your taxable salary.

So, if you earn £60,000 a year and pay 10%, or £6,000, into your pension, then your taxable salary will be £54,000. This is above the higher rate tax limit, and you will be paying 40% of £4000, or £1,600 to HMRC.

But if your salary is £60,000 and you contribute 17.5% - £10,500 - to your pension, then your taxable salary falls to £49,500. This is below the new higher tax threshold, and you pay 20% tax on all your earnings.

In addition, thanks to the way the pension system works, you will still enjoy 40% tax relief on the relevant contribution, meaning that your £10,500 puts a great deal more into your pension pot.

GIFTS OF UP TO £50 TO EMPLOYEES

From April 2016 new rules were introduced to allow employers to provide their directors and employees with certain "trivial" benefits in kind tax free.

The new rules were brought in as a simplification measure so that certain benefits in kind do not now need to be reported to HMRC as well as being tax free for the employee. There are of course a number of conditions that need to be satisfied to qualify for the exemption. Conditions for the exemption to apply

- the cost of providing the benefit does not exceed £50
- the benefit is not cash or a cash voucher
- the employee is not entitled to the benefit as part of any contractual obligation such as a salary sacrifice scheme
- the benefit is not provided in recognition of particular services performed by the employee as part of their employment duties (or in anticipation of such services)

So this exemption will generally apply to small gifts to staff at Christmas, on their birthday, or other occasions and includes gifts of food, wine, or store vouchers.
Note that where the employer is a "close" company and the benefit is provided to an individual who is a director or other office holder of the company the exemption is capped at a total cost of £300 in the tax year.

GIFTS TO CHARITY

Where possible, higher rate taxpayers should "Gift Aid" any payments to charity to provide additional benefit to the charity and for the individual to obtain additional tax relief on the payment.

For example where an individual makes a £20 cash donation to charity the charity is able to reclaim a further £5 from HMRC making a gross gift of £25. Where the individual is a 40% higher rate taxpayer he or she is able to claim a further £5 tax relief under self-assessment, reducing their net cost to £15.

Note that the donor is required to make a declaration that they are a UK taxpayer and those that have not suffered sufficient UK tax to support the Gift Aid amount will be taxed on the shortfall.

Remember that Gift Aid does not just apply to gifts of cash. Many charity shops will now sell your donated items on your behalf and are able to treat the sale proceeds as Gift Aided donations. It is also possible to gift quoted securities and land and buildings to charity and claim Gift Aid on the market value of those assets.

TAX EFFICIENT CHILDCARE SCHEMES

Earlier this year the government announced that no new childcare voucher schemes could be set up after 5 October 2018. This was a six month extension from the previous 5 April 2018 end date. If those employers offering such schemes at 5 October are prepared to keep administering their scheme then they will continue to be available but will eventually be phased out.

The current scheme allows employers to provide vouchers to employees to pay for care of their children up to age 16. Vouchers to the value of £55 a week can be provided tax free to basic rate taxpayers with differing tax free amounts for higher rate and additional rate taxpayers.

The replacement scheme is the government's "tax free" childcare account which started this year for children up to age 12. Under this scheme the government tops up the savings in the childcare account by 25% up to £2,000 per child per year (£4,000 for a disabled child).

Thus, savings of £8,000 would be topped up by the government to £10,000 and the £10, 000 could then be used to pay Ofsted registered childcare providers such as nursery fees, childminders, after school clubs and summer camps.
Unlike childcare vouchers, the new childcare accounts will be available to both employees and the self-employed.

For those already in childcare voucher schemes it may be beneficial to switch to the new childcare account and we can help you calculate whether or not that would be beneficial.

TAX DIARY OF MAIN EVENTS

2018 Dates	What's Due
1 January	Corporation tax for year to 31/03/18 unless quarterly instalments apply.
19 January	PAYE & NIC deductions, and CIS return and tax, for month to 5/1/19 (due 22 January if you pay electronically);
31 January	Deadline for filing 2017/18 Self-Assessment Tax Return online. Due date for 2017/18 Income tax and CGT liability, also due date for 50% payment on account of 2018/19 income tax liability.
1 February	Corporation tax for year to 30/4/18 unless quarterly instalments apply
19 February	PAYE & NIC deductions, and CIS return and tax, for month to 5/2/19 (due 22 February if you pay electronically)
1 March	Corporation tax for year to 31/5/2018 unless quarterly instalments apply
19 March	PAYE & NIC deductions, and CIS return and tax, for month to 5/3/19 (due 22 March if you pay electronically)
29 March	Brexit day?
31 March	MTD for VAT starts. VAT registered businesses making taxable supplies over £85,000 per annum need to keep their records digitally and submit their VAT data for VAT periods commencing after this date digitally. Note there is a 6 month deferral for certain "complex" businesses such as groups and some not for profit bodies.

DON'T FORGET THERE MAY BE TAX TO PAY ON YOUR DIVIDENDS IN JANUARY

The rules of taxing dividends changed radically from 6 April 2016 with the removal of the 10% notional tax credit and the introduction of new rates of tax on dividends. For many taxpayers that meant more tax to pay on those dividends on 31 January 2018. The same will also apply on 31 January 2019. If you are a higher rate taxpayer and received £30,000 of dividends in 2017/18, £25,000 of those dividends would be taxed at 32.5% meaning £8,125 due on 31 January 2019.

GET YOUR BUSINESS READY FOR 2019!

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What should you be doing over the next few months to strengthen your business and get it ready to take advantage of any upturn? The most profitable businesses we act for have two key things in common:

1. They plan and budget ahead and monitor how they are doing monthly

2. They understand that in business, as in life, unexpected situations arise and they need to have spare resources to protect themselves or to invest in a new opportunity.

So what should you be doing now to plan ahead?
It's a good idea to set aside a half day for this activity and to think about where you want your business to be in twelve months, what your turnover and profit would be and write these down.

Remember, the easiest way to grow your business is keep your existing customers happy, so ask yourself "How are we doing in this area, what are our competitors doing, can we improve, how do we get recommendations from existing customers, how do we exceed customer expectations"?

Consider how you attract new customers to your business, what marketing do you need to do and who is going to do it?

Write an action plan and EVERY MONTH review how you are doing against the plan. Use the plan as your key indicator of how well you are doing towards your annual target.

What if something unexpected should occur?
Plans change, sometimes for the good and sometimes the other way. The first rule of business is always put some of your profit away for that unexpected opportunity or event.

How much should you have in reserve? This depends on a variety of things such as the volatility of your industry, market conditions and your own personal circumstances, but as a rule of thumb, think about what would happen if you lost your largest 5 customers?

What money would you need to have in reserve to go out and replace them, or if you have many smaller customers, what would happen if your suppliers went out of business - would you need to resource the product elsewhere? Essentially think about the risks you face that you cannot insure against.