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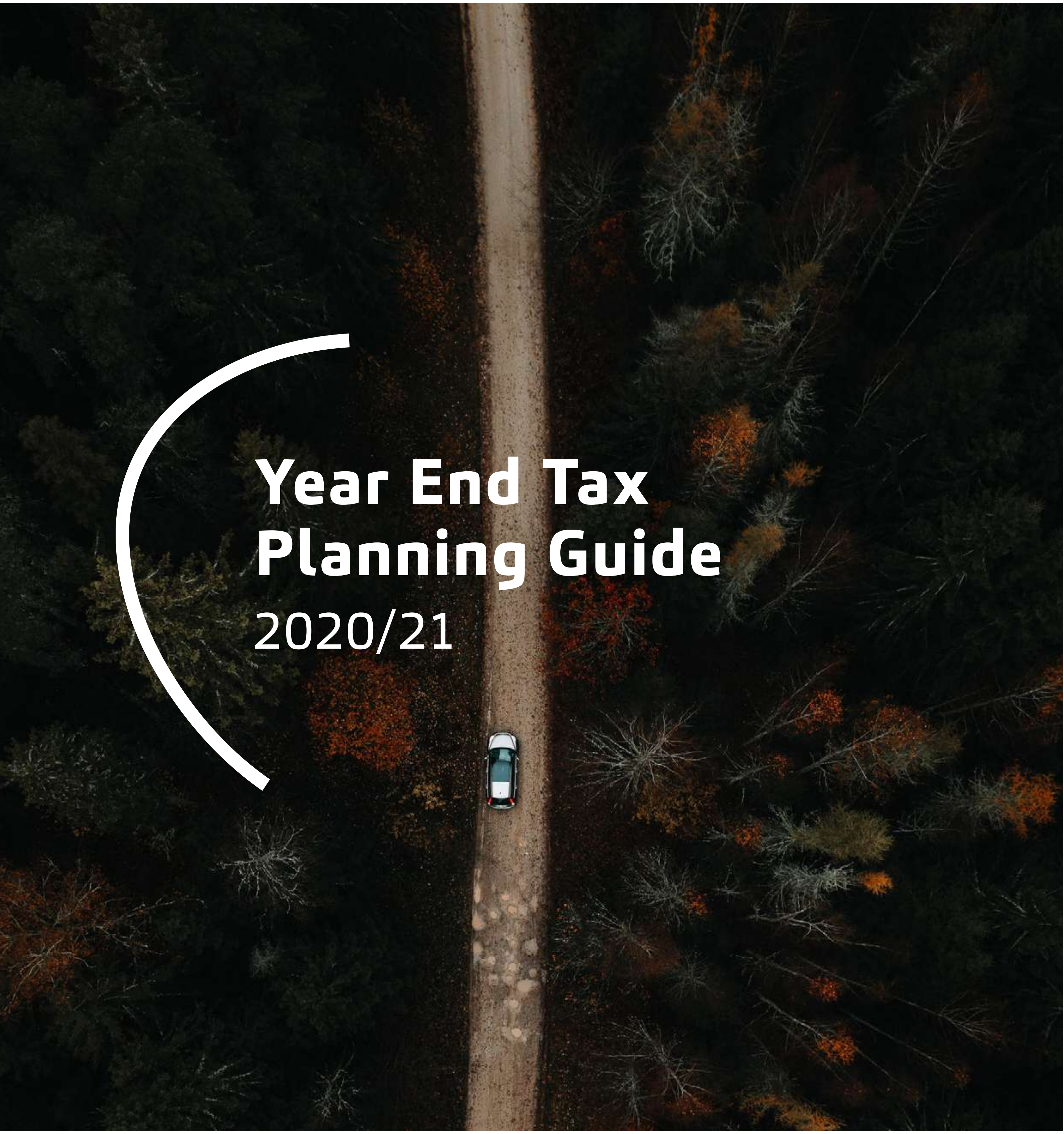

Year End Tax Planning Guide

2020/21

Essential tax planning guide for individuals, corporates and SMEs

Now, for tomorrow

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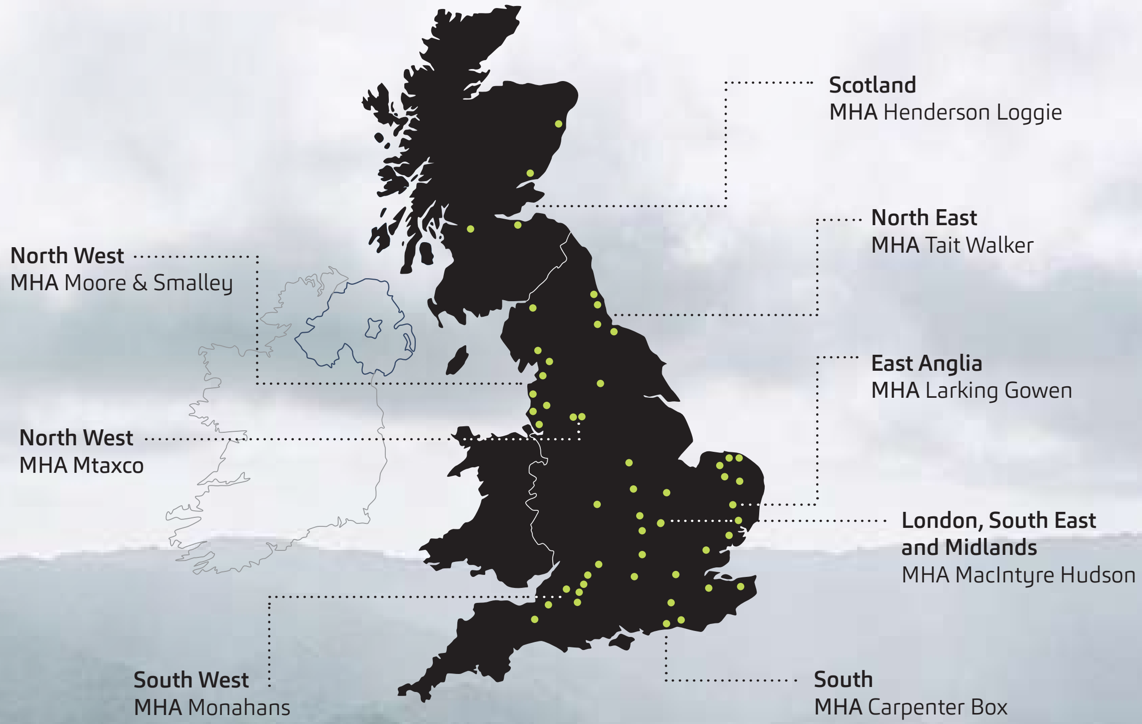

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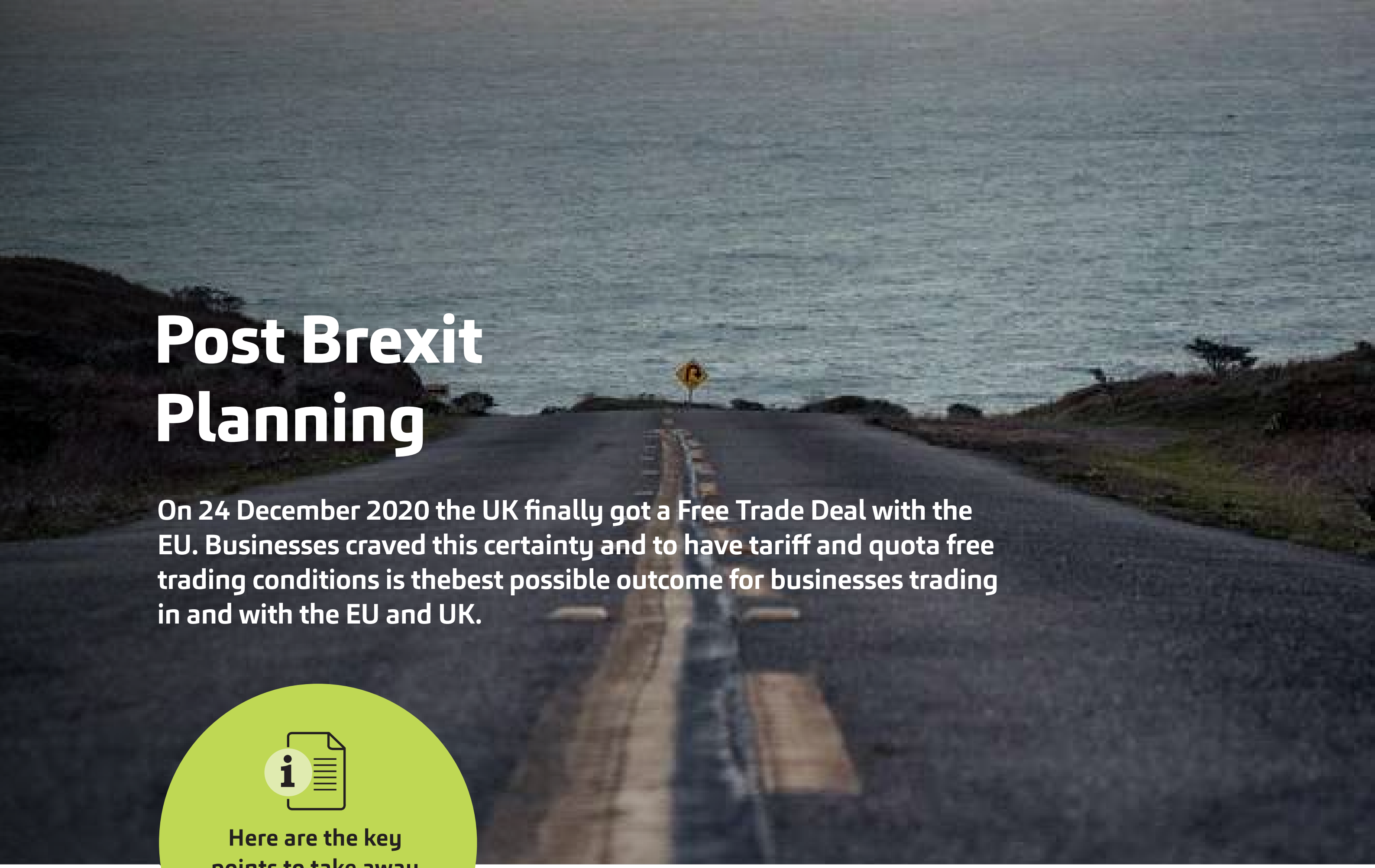


Post Brexit Planning

On 24 December 2020 the UK finally got a Free Trade Deal with the EU. Businesses craved this certainty and to have tariff and quota free trading conditions is thebest possible outcome for businesses trading in and with the EU and UK.

Here are the key points to take away from the announcement:

- Under a Free Trade agreement Customs Duty tariffs will be reduced to 0% for goods originating in the UK and EU.
- Origin status will be the hot topic in 2021. The rules of origin will be critical to the tariff free movement of goods. Unlike a Customs Union, a free trade deal is a bilateral agreement which only allows tariff free movement of goods which are produced in either the UK or EU. There are rules relating to status being determined by the % of UK or EU content. For goods manufactured in the UK/EU they must meet the rules of origin laid out in the FTA.
- Exporters meeting the origin rules will need to obtain a preference certificate to ensure that 0% tariffs apply. See next page regarding Approved Exporter Status and certificates.
- Combining Inward Processing Relief and preferential origin treatment isn't allowed. Care must be taken to plan and understand the complexities surrounding these important regimes.
- AEO(S) status will be mutually recognised by the EU and UK.
- Import and Export procedures are still in place. This was always going to be the case and involves a big shift in paperwork and processes for those business who have previously only been involved with Intra-EU trade.
- Postponed import VAT (PVA) accounting is a welcomed measure – see next page for how this works.
- Deferment accounts – we have seen a big rush to set up Duty deferment accounts. HMRC has introduced bank guarantee waivers for UK businesses. Due to changes in import VAT accounting you may be able to reduce your bank guarantee. Where you are solely importing 0% Duty goods under the FTA and using PVA your deferment account may not be required going forwards.
- Anti-dumping duty (ADD) measures that were initiated by the EU have been reviewed by a newly created UK Department (Trade Remedies Investigations Directorate (TRID)) to determine if ADD is still required from 2021. It is therefore important that, for those companies who are currently subjected to ADD on imports, the Government website (https://www.gov.uk/guidance/trade-remedies-transition-policy) should be checked to confirm if those measures will continue.
- As part of the Withdrawal Agreement, goods currently in the EU can, under certain circumstances, be re-imported without payment of customs duties. Returned Goods Relief must be used for these movements. Quote the Customs Procedure Code 61 23 F01 on the import declaration. You must ensure you have the evidence of original supply, such as freight documents, contracts and invoices.
- VAT registration requirements in the country of import, when you sell Delivery Duty Paid (DDP), remain. This is one of the biggest issues that trips businesses up and must be reviewed urgently.
- Trading in the EU requires UK businesses to appoint an Indirect Customs Representative. This is because the UK is a non-EU country.

- VAT registrations for UK businesses in the EU require that a fiscal representative is appointed in the majority of EU countries.
- E-commerce rules come in at the same time as Brexit. Low Value consignment relief is scrapped and any E-commerce seller or on-line platform previously importing under these rules is required to register for VAT and account for UK VAT at the time of supply. This applies when the supply is £135 or below.
- Rules relating to Northern Ireland remain complex and it is unclear if movements of goods from GB to NI will still need to be declared via the Trader Support Service (TSS).

Approved exporter status

To ensure your EU customers can claim the reduced duty rate a certificate or declaration of origin will be required. This can be obtained from the Chamber of Commerce or HMRC. There is a cost involved in getting the certificates (currently EUR1 Forms) stamped by the Chamber. There is a time cost involved in getting HMRC to deal with the certification.

Application for Approved Exporter Status may be beneficial if large volumes of UK origin goods are exported from the UK as this will reduce administrative costs and burden. It results in either approval for use of pre-authenticated forms being issued by HMRC or an invoice declaration being made.

Postponed Import VAT accounting

A welcome measure which all VAT registered entities will be able to use for imports into the UK. It means that when you import goods into the UK you are not charged import VAT in order to clear your goods.

It is important that you instruct your customs agent to declare the goods to PVA, otherwise you will be charged import VAT and have to claim the VAT back on your VAT return a couple of months later. Therefore, PVA is a great cash flow saving procedure.

Once you have PVA in place you will be able to download your PVA monthly statements via your Government Gateway account. Import VAT is declared in Boxes 1 &4 on your VAT return and the net value of the import in Box 7.

EU VAT registration

A common misconception is that a business is obliged to set up a subsidiary or a new entity to be able to trade goods in the EU. This is generally not the case, unless there are reasons such as CE markings or REACH regulations to satisfy.

The starting point when selling goods is always:

- Who will be the importer of record? This is usually dictated by the Incoterms, so if you are obliged to deliver the goods to the client premises then you will be the importer of record.
- If you are the importer of record your business may need to register for VAT in that country and may also need to appoint a fiscal representative.
- Post Brexit, a UK business cannot rely on its UK EORI number to clear goods through Customs in an EU country. It will need to be registered for VAT and get an EU EORI number.
- If you trade in multiple jurisdictions, consider using the Netherlands as an EU hub and moving goods via there. By having a VAT registration in NL this will allow you to continue the seamless intra-EU trade from that jurisdiction.

Income Tax

£12,500

2020/21 - tax-free personal allowance

The starting point in tax planning is to understand where your income is likely to fall relative to the tax thresholds.

Action Point

Transferring income yielding assets, or an interest in those assets, to a spouse or civil partner ensures both parties have income to use up relevant allowances. Take advice before doing this as there may be other tax implications.

For 2020/21, the tax-free personal allowance is £12,500 and the next £37,500 is taxed at the basic rate of 20% (7.5% for dividend income). Higher rate tax of 40% (32.5% for dividends) is charged on income above £50,000 and additional rate tax of 45% (38.1% for dividends) is charged on income above £150,000. Note that dividends are treated as the top slice of income, so the basic and higher rates are first allocated against other income.

The personal allowance is reduced by £1 for every £2 of income above £100,000. There is therefore no personal allowance at all where income exceeds £125,000. This also means that, over the income band £100,000 to £125,000 the effective rate of income tax is 60%. Or to put it in another way, tax relief at 60% is available on pension contributions and gift aid payments in this income band. To make the best use of tax allowances, sufficient income should be generated where possible to fully utilise the personal allowance and basic rate band. This may be done by careful planning of the timing of dividends from a private company or distributions from a family trust.

Action Point

Personal pension contributions provide some of the highest rates of income tax relief, and with it being suggested that pensions tax relief could be restricted this is an excellent time to make additional contributions if you are able to. For example, if your income is in the band £100,000 to £125,000 a gross pension contribution of £10,000 could cost as little as £4,000 after tax reliefs.

The personal savings allowance entitles basic rate taxpayers to £1,000 of tax-free savings income and higher rate taxpayers £500. However, additional rate taxpayers receive no allowance.

The dividend tax allowance of £2,000 is available for all taxpayers. Amounts falling within the dividend allowance are taxed at 0%. The allowance will, however, use any part of the lower rate bands that they would otherwise have fallen into. Married couples and civil partners have further opportunities for using their allowances and it should not be forgotten that children also have tax free allowances.

If you receive child benefit, it is important to remember that taxpayers with adjusted net income in excess of £50,000 during the year are liable to the high-income child benefit charge. If both partners have income above this level, the charge applies to the partner with the higher income.

The charge is 1% of the full child benefit award for every £100 of income between £50,000 and £60,000. Where income is more than £60,000, effectively all child benefit is lost. You can elect not to receive child benefit if you or your partner prefer not to pay the charge.

Action Point

There may be potential to divert income from grandparents or other relations to take advantage of a child's personal allowance. This is typically achieved by creating a family trust which can also be part of an Inheritance Tax planning exercise.

Capital Gains Tax

The annual exemption for 2020/21 is

£12,300

Use your annual exemption

The annual exemption for 2020/21 is £12,300. This is a 'use it or lose it' exemption; it cannot be carried forward to the future years. It therefore makes sense to crystalise gains each year to the extent of the annual allowance, if possible.

Note that under the 'bed and breakfasting' rule (selling some shares and then buying the same shares shortly afterwards to crystalise a gain or a loss), a gain or loss does not crystallise for tax purposes if you sell shares and repurchase the same shares within 30 days.

Action Point

It is possible to repurchase the same shares through an ISA. Alternatively, a married couple can arrange for one partner to sell shares after their spouse has transferred some loss-making shares to them to reduce the overall gain.

Rates of tax

The rate of capital gains tax (CGT) is 10%, where the total taxable gains and income is less than £37,500. Any excess gains are taxed at 20%. Where business asset disposal relief (BADR, formerly known as entrepreneurs' relief or ER) applies, the rate of tax on the whole gain is 10% subject to a £1m lifetime allowance (see below).

Investment property

The 10% and 20% rates also apply to gains on commercial property but gains on residential properties are taxed at the higher rates of 18% and 28%. In addition, where normally any gains or losses would be reported on the self-assessment tax return by 31 January following the tax year of sale, disposals of residential property made on or after 6 April 2020 must be reported within 30 days.

Crystallise and use capital losses

Capital losses must be offset against capital gains in the same year. Unused losses are carried forward indefinitely and can then be offset against future gains. A formal claim is required. The claim must be submitted to HMRC within four years of the end of the tax year of the loss, otherwise it will be time-barred. Hence, claims must be made by 5 April 2021 in respect of 2016/17 losses if claims have not already been filed.

When an asset has become valueless or worth next to nothing, it may be possible to make a "negligible value claim" in order to crystallise a capital loss. The claim can be related back up to two tax years in certain circumstances, allowing the loss to be offset against gains made in earlier years.

Proposed changes to capital gains tax may be implemented as soon as the next Budget on 3 March 2021.

Action Point

If you own more than one home, consider whether a principal private residence election is needed. You have two years to make an election so the sooner you speak with us, the better the position we will be in to advise on which property the election should be made over.

Business asset disposal relief

Prior to 6 April 2020, BADR was known as entrepreneurs' relief. CGT is charged at 10% where BADR applies, subject to a lifetime limit of gains totalling £1m. This was reduced from the £10m limit that applied to disposals made prior to 11 March 2020. BADR applies to the sale of a trading business carried on as a sole trader or partnership, or to the sale of shares in a trading company. It can also apply to personally held assets that have been used in the trade of a partnership that you are a partner of or a company that you are a shareholder in.

Your main residence

Ownership of two homes in the UK is becoming more commonplace as couples who both own houses marry, houses are inherited, parents buy houses for their children to live in, or people just buy a place in the country, either to let or to escape to at weekends.

The gain on your principal private residence is exempt from CGT. If you have more than one private residence, your 'main' residence will normally be, by default, the one in which you spend the greatest time. However, it is also possible to determine that matter by nominating one of them as your main residence. This requires careful planning, since the flip side of a gain on one residence being treated as exempt is that a gain on the other residence will become chargeable. Written nominations must be submitted to HMRC within 24 months of any change in residences becoming available from April 2020, the rules on two ancillary reliefs, namely lettings relief and final period exemption changed. Currently, lettings relief of up to £40,000 (£80,000 per couple) is only available for those landlords who are in shared occupancy with their tenant. In addition, the final period exemption was reduced from 18 months to 9 months.

Marital breakdown

If you have permanently separated from your spouse during this tax year, you may want to consider dealing with transferring assets between you before 5 April 2021. This is because assets can pass between separated spouses without capital gains tax in the year of permanent separation. Transfers taking place after this deadline may attract capital gains tax.

Capital gains tax overhaul

The Conservative government commissioned a review of capital gains tax in July 2020. The review has recommended slashing the annual allowance (currently £12,300) and aligning rates more closely with income tax (currently 20%, 40% and 45%) in a move to raise money for the exchequer following the COVID-19 pandemic.

There is heightened media speculation that some of these proposed changes may be implemented as soon as the next Budget. Individuals who anticipate realising capital gains in the short to medium term should consider whether it is appropriate to bring these gains forward.

Action Point

Business owners should consistently review their BADR position as it is easy to fall foul of the detailed rules.

Tax Favoured Investments

Individual savings accounts are an excellent investment for higher rate taxpayers.

Utilise individual savings accounts

Individual savings accounts (ISAs) are an excellent investment for higher rate taxpayers. The maximum allowance is £20,000. You must save or invest by 5 April for it to count for that year and if you don't use the allowance it is lost.

The ISA family has grown considerably since its inauguration in 1999, with a further five ISAs to consider:

1. Help to buy ISA where first time buyers get a 25% cash bonus from the Government on savings made into a help to buy ISA. The help to buy ISA closed to new accounts on 1 December 2019. If you have already opened a help to buy ISA, you will be able to continue saving into your account until November 2029
2. Inheritance ISA which allows a spouse or civil partner to inherit the savings in an ISA belonging to their deceased loved one without triggering income tax
3. Lifetime ISA (LISA) where UK residents aged between 18-39 can contribute up to £4,000 per tax year and the Government will then add a 25% bonus at the end of each tax year in respect of the contributions paid
4. Flexible ISA is a basic ISA which allows you to withdraw and replace money from your ISA
5. Innovative finance ISA (IFISA) lets you put your savings with peer-to-peer lenders or invest in companies through crowd funding websites

Consider investing in enterprise investment schemes and seed EIS Shares

Tax relief is available where you subscribe for shares qualifying for enterprise investment schemes (EIS) or seed EIS (SEIS) relief.

Under the EIS scheme, your tax liability for the year may be reduced by up to 30% of the sum invested. In addition, capital gains from disposals in the previous 36 months or following 12 months may be reinvested into EIS shares, resulting in a deferral of the gain.

You can invest up to £1m under EIS in the year or up to £2m if you invest in knowledge intensive companies (broadly these are early stage businesses engaged in scientific or technological innovation).

The seed EIS scheme offers another form of reinvestment relief for investors who subscribe for shares in small start-up companies. For 2020/21, the maximum qualifying investment is £100,000.

Income tax relief is given at the rate of 50% of the sum invested, and relief may be given against tax in 2019/20 or 2020/21. Both EIS and SEIS shares are normally exempt from capital gains tax (CGT) and inheritance tax (IHT), subject to detailed conditions being met.

A number of professionally managed EIS and SEIS investment funds exist which invest in a broad range of EIS and SEIS companies on behalf of investors. Whilst such funds should allow for risk management through the spreading of your investment between different companies, it must be remembered that EIS and SEIS investments will, more likely than not, be viewed as carrying with them a high degree of risk.

Action Point

If you are seeking to preserve family wealth within a controlled family environment and/or wish to consider introducing the next generation into the decision- making about investments made, please speak to your professional adviser about how a FIC could benefit you.

Venture capital trusts

Venture capital trusts (VCT) are specialist tax incentivised investments that enable individuals to invest indirectly in a range of small higher risk trading companies and securities. VCTs are companies in their own right and, like investment trusts, their shares trade on the London Stock Exchange.

Shares in qualifying VCTs offer the following tax incentives

1. Up front income tax relief at 30% of the amount subscribed, subject to a maximum investment of £200,000 per tax year. The investment must be held for a minimum of five years in order to retain the income tax relief. Note that income tax relief on the purchase of VCTs is available only where new shares are subscribed, and not for shares acquired from another shareholder.
2. Dividends received on VCT shares are income tax free (including shares acquired from another holder).
3. CGT exemption applies on the VCT shares (including shares acquired from another holder).

Note that gains from other assets cannot be rolled into purchases of VCT shares.

Also note that the rules changes to SEIS and EIS affecting the annual investment limit and investments which are intended to provide 'capital preservation' shall apply on the same basis to VCT investments.

Family investment companies

Family investment companies (FIC) can be a useful way to protect family wealth. The most appropriate structure will depend on the family's circumstances and objectives. A FIC enables parents to retain control over assets whilst accumulating wealth in a tax efficient manner and facilitating future succession planning.

By subscribing for shares in the company and making loans to it, the family directors can then invest as appropriate via the corporate structure. If the company makes profits, the profits will be subject to corporation tax at just 19%, presenting a significantly greater advantage than if the investments had been held directly and suffered IT at 40%/45% or through a trust where the rates applicable to trusts would be applied.

If the company receives UK dividend income from investments in shares, it will be exempt from tax. However, interest (from saving accounts), rents (from investment properties) and other income will be taxable. Losses from rental income can be offset against other income in the company.

Gains in a FIC are taxed at 19%, compared to most individuals and trustees who pay up to 28%.

Extraction of profits from the company can be made tax efficiently according to each shareholder's personal circumstances. Shareholders only pay tax when the FIC distributes income so allowing profits to be retained in the company until required and perhaps taken at retirement when the individual's personal tax rate may be lower.

Any investment gains and income could be paid into a pension plan for the benefit of the shareholders.

Action Point

Prudent utilisation of the reliefs associated with tax favoured investments as part of a balanced portfolio can make a big difference to future investments' returns, but it is important to consider the risks associated with them and it is essential that professional advice is sought.

Property Investment Business

Individual savings accounts are an excellent investment for higher rate taxpayers.

Tax relief for mortgage/loan interest for residential buy-to-let investor

Since 6 April 2020, a higher or additional rate taxpayer will only be able to claim relief for any residential buy-to-let (RBTL) interest at the basic rate.

The way that this restriction operates means that a taxpayer's total income will no longer include a deduction for the restricted interest. This can further affect a taxpayer's position if this increase means the taxable income then exceeds certain thresholds which reduce the availability of child benefit, the personal allowance or the pension savings annual allowance.

Action Point

RBTL investors should consider tax planning opportunities as soon as possible. This could involve paying down debt or refinancing lending. Incorporation may be desirable in some cases, but a careful examination of the relevant factors is required, including any available reliefs from CGT or SDLT.

Annual tax on enveloped dwellings

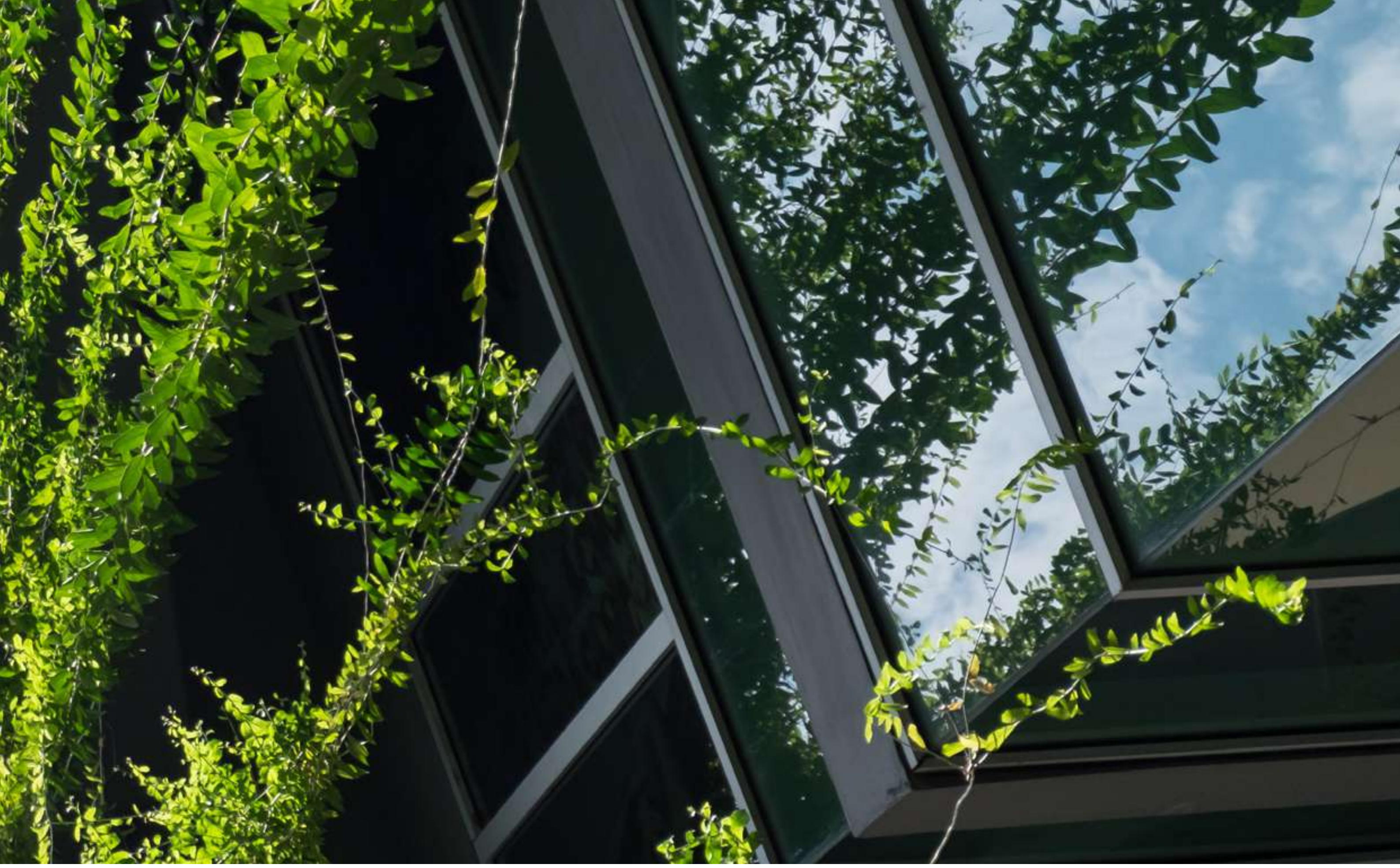
Annual tax on enveloped dwellings (ATED) can apply when residential property with a value of at least £500,000 is held in an 'envelope'. Broadly, an envelope includes a limited company, an LLP with a corporate partner or a collective investment scheme.

For any properties owned at 6 April 2021, unless the 'envelope' is a charity, a return will need to be filed by 30 April 2021 and any tax accounted for. In the case of a mid-year acquisition, a separate return must be filed within 30 days of purchase.

The ATED charge is based on the relevant property valuation. Relief from the ATED charge is available in many situations, including where the property is used for property development or as part of a buy-to-let business. It is important to remember, even if there is no ATED charge, a nil return may still need to be filed and the relief claimed to avoid penalties. It is the property value at 1 April 2017 that must be tested against the thresholds for ATED from April 2020. Properties must be revalued every 5 years or on certain other interim events.

Action Point

If you hold a residential property within an envelope, advice should be sought to understand whether it falls within ATED. The property value at 1 April 2017 must be used. If you file a return six months late, the penalties could be £1,000.



Structure and buildings allowances

A new tax relief is available for businesses (including property rental businesses) that incur capital expenditure on the construction or improvement of non-residential buildings and structures. The relief known as structure and buildings allowances (SBA) will apply at an annual rate of 2% on a straight-line basis once the property has been brought into use for up to 50 years. If a business paid over the market value for the structure, they may only claim for the original market value. The new legislation that the relief will not be given for construction projects which began before 29 October 2018 and, in contrast to the tax relief which applies for fixtures in buildings (which will continue unchanged), there will be no balancing allowance or charge when the property is transferred (the new owner will claim the remaining relief) and the relief will reduce the base cost of the property for capital gains purposes.

Changes to property taxes?

Tax rates could increase in 2021 and we might see an increase in the rate of capital gains tax (CGT) and/or the reduction or abolition of certain CGT reliefs. It is also the case that the temporarily increased SDLT nil rate band of £500,000 for residential property will end on 31 March 2021.

In some cases it may be appropriate for property investors to consider bringing forward plans to sell or gift property assets. For example if you plan to gift a property to a family trust or to sell a property to a family investment company you may wish to consider if it is preferable to do so now rather than in 2021/22.

CGT 30-day reporting and payment regime

Since 6 April 2020 individuals, trustees and personal representatives (but not companies) who realise a taxable capital gain from the sale or other disposal of UK residential property have to make a residential property return and a payment on account of CGT within 30 days of the completion of the disposal. Members of a partnership are required to individually submit a UK land disposal return for their shareholding in the disposal of the property.

A return is not required where the capital gain is not taxable, for example, if it is covered by private residence relief but otherwise interest and penalties will be charged if the deadline is missed.

Action Point

Investors in commercial property should consider the allowance available and read the guidance published by HMRC. Property investors should consider whether action is required now to make use of the current tax rates and reliefs.

Making Tax Digital for VAT

2020/21 marks the second year of Making Tax Digital (MTD) for VAT businesses. By 9 March 2020 more than 1.4 million businesses had joined the new service with more than 4 million VAT returns submitted successfully.

Initially mandated for 2020, the requirement for digital links was pushed back until April 2021. As we now approach this deadline, businesses need to ensure the records they keep are linked to their VAT submission software. In many cases, this will automatically be carried out where full accounting software is used for record keeping and submissions.
For those using separate systems for record keeping and VAT submissions, such as spreadsheets, digital links must be established and maintained between these records and the software used for submission.

VAT registered businesses with turnover below the threshold, have been exempt from MTD to date but will be required to register for their first accounting period beginning on or after 1 April 2022.

HMRC have recently announced that the VAT mainframe will be discontinued from April 2021 so any businesses not yet registered for MTD will either need to submit their VAT returns themselves or switch to MTD to allow agents to continue submitting. For small businesses, this switch would require them to follow all of the MTD rules around digital record keeping, quarterly updates and the use of MTD compliant software.

Making tax digital for income tax and corporation tax

The date of bringing Income Tax into MTD has now been set for April 2023. This will see landlords and business owners with over £10,000 of income being the first to enter. HMRC are still operating their voluntary pilot of MTD for businesses and landlords providing certain conditions are met. The switch to MTD means business owners and landlords will be required to keep digital records and submit quarterly updates. The initial target date to bring Corporation Tax into MTD is yet to be determined and will likely depend on the effectiveness of the Income Tax transition.

Action Point

The first and most pressing change is in April 2021 when digital links for VAT become compulsory. Currently these are not compulsory although many businesses already comply.

What do you as a MTD VAT registered business need to consider?

1. Do you use linked digital software for all your accounting processes and submit direct from that software to HMRC?
2. Do you use linked digital software for all your accounting processes and then download a return and digitally link this to bridging software, and then submit this way to HMRC?
3. Do you have some manual records still?
4. Do you use bridging software but manually type in the figures because you can't or don't download from your bookkeeping software?
5. Do you use excel for all your records?
6. Do you use separate pieces of software for various bookkeeping tasks and then manually enter this information into your bookkeeping software?

If you answered yes to only 1 or 2 then you are compliant. If you answered yes to either 3, 4, 5 or 6 then you need to speak to your accountant as soon as possible to get a plan in place to ensure you comply with the new, stricter, rules from April 2021.

If you are voluntarily registered, and an agent usually submits your VAT returns on your behalf, please be aware that you will either need to submit these yourself or become MTD compliant in time for the first submission from April 2021. Should you require assistance in this matter, our MHA advisers can review your business and help find the right system for you.

Income Tax

If you are self-employed or a landlord start to consider what necessary steps you may want to take now to aid with the transition to MTD in April 2023. Again, our MHA advisers can assist with this.

Pensions

From April 2014 you can contribute

£40,000

Action Point

If the total of all your pension funds is likely to be at or near £1m by the time you retire, you should seek urgent advice.

This can be increased if you did not use up your allowances in the preceding 3 years and were a member of a qualifying pension scheme.

From 6 April 2016, the standard annual allowance (AA) of £40,000 for pension contributions (the total of personal and employer contributions) was reduced by £1 for every additional £2 of an individual's 'adjusted income' over £150,000. This could still affect you if your income from all sources was over £110,000. However, from 6 April 2020, the thresholds were increased and the reduction only applies if an individual's 'adjusted income' is over £240,000. This can still affect you if your income from all sources is over £200,000. Unused allowances from, 2017/18 and 2018/19 and 2019/20 (based on your available annual allowances for those years) can be brought forward and used in 2020/21. This can affect you unexpectedly if you are a member of a final salary e.g. defined benefit (DB) or career average scheme.

Should you breach the rules and pay too much, you will be subject to an annual allowance charge. Payment of this charge is the individual member's responsibility and will be charged at your marginal rate of tax.

Lifetime allowance considerations

Although funds invested within a pension can grow tax free, there is a limit (the lifetime allowance – LTA) on the total amount you can hold in a pension pot: funds in excess of the limit will suffer penalty tax charges when you start to take pension benefits.

The LTA reduced from £1.25m to £1m from 6 April 2016. You can elect for 'Individual Protection 2016' (IP16) to preserve your individual LTA at the lower of £1.25m or the actual value of your pension funds at 5 April 2016 (if they were above £1m on 5th April 2016).

As with previous reductions, individuals can also preserve the earlier £1.25m LTA by opting for 'fixed protection 2016' (FP16). Although all contributions must have stopped from 6th April 2016 if fixed protection is chosen. The Government announced that the LTA will increase in line with the consumer price index each year from 6th April 2018. Therefore, from 6th April 2020 for the tax year 2020/21, the LTA increased to £1,073,100.

Stakeholder pensions

Stakeholder pensions allow contributions to be made by, or for, all UK residents, including children and grandchildren from birth. Consider making a net contribution of up to £2,880 (effectively £3,600 gross) each year for members of your family, even for those who do not have any earnings. You can also make pension contributions in respect of family members who do not work (i.e. have no relevant earnings) or cannot afford them.

If you make contributions to your children's pension schemes on their behalf, they get the tax relief and the payments are treated as reducing their taxable income, so it could help keep them below the £50,000 income threshold at which they can retain the child benefit.

The earlier that pension contributions are started, the more they may benefit from compounded tax-free returns.

Pensions freedoms

The popular pension freedom reforms that launched in April 2015 mean that people can now access their whole pension pot at age 55 and spend, save or invest the money as they wish.

Savers can withdraw the whole pot in one go, although you might mistakenly run up a huge tax bill, especially if you were only used to being taxed at the basic rate through an employer.

By withdrawing large portions of your retirement pot, the outcome may mean you move into a higher rate tax bracket.

Flexible access from age 55

Pension investors aged at least 55 (rising to 57 from 2028) will be able to access their pension fund as a lump sum if they wish. The first 25% will be tax free and the rest will be treated as taxable income and will be subject to income tax at their marginal income tax rate. Basic rate taxpayers need to be aware that any income drawn from their pension will be added to any other income received, which could result in them paying tax at 40% or even 45%.

You can also choose to take your pension in smaller lump sums, spread over time, to help manage your tax liability.

Since April 2015, some restrictions have been removed. Fully flexible drawdown will offer considerable freedom, but highlights the need for expert planning advice.

Action Point

If you are in a defined contribution scheme (DC or Money Purchase), you should consider your options now and check what your scheme offers.

If you were already in flexible drawdown prior to 6 April 2015, you can move to the new unlimited regime and draw more income than the current maximum, however that can lead to restrictions on further contributions.

Existing capped drawdown arrangements will continue, although they are currently limited to 150% of a benchmark annuity rate. It should be noted that adopting these new flexibilities swill restrict your future ability to invest more into your pension scheme, so care is necessary.

The money purchase annual allowance or MPAA is currently £4,000 and is triggered when taking income from your drawdown not PCLS.

Transferring a final salary scheme

If you have a final salary (e.g. defined benefit (DB)) pension fund, you may still be able to take advantage of the new rules to make unlimited withdrawals. However, to do so you would have to transfer some or all of your pension into a defined contribution scheme (DC or Money Purchase), there are a range of personal pension wrappers available. You should seek financial advice before transferring benefits as you could lose valuable benefits which need to be weighed against the new flexibilities

Unfortunately, members of unfunded public sector DB schemes, such as the NHS Superannuation scheme won't be able to transfer to DC schemes.

Action Point

Speaking to an adviser before transferring benefits out of a DB scheme will ensure you are aware of the full implications.

Reviewing your retirement plans

The new rules give considerable freedom of choice. Under the new rules, whilst nobody will be forced to buy an annuity at any age, those who wish to do so can at present and this may prove to remain the most appropriate solution for some people.

Clearly, it has never been more important to make the right choices about your pension fund, both about how you should carry on saving and how you should take the benefits These decisions will affect you for the rest of your life. It is essential, especially for those nearing retirement, to seek professional advice. Not only will an expert look at your pension fund, but they will consider your wider financial goals. They will also consider another aspect of the new freedoms outlined below.

Your pension pot: A tax efficient way of keeping it in the family

Important changes are also taking place with regards to how pensions are treated in the event of your death. Retaining pension wealth within the pension fund and passing it to future generations is now an extremely tax efficient estate planning solution, as it combines inheritance tax (IHT) free inheritance with tax free investment returns and potential tax-free withdrawals. Indeed, it may even change the way we utilise our capital in retirement, possibly leading us to spend other funds before our pensions.

From April 2015, you can nominate who inherits your pension fund. It can be anyone of any age and is no longer restricted to your 'dependents'. If death occurs before age 75, the nominated beneficiary can access the funds at any time, tax free. If the original policy holder dies after age 75, defined contribution pension funds can be taken in instalments or a lump sum and will be taxed at the beneficiary's marginal rate as they draw income from it.

Additionally, the nominated beneficiary can appoint their own successor, allowing the accumulated pension wealth to cascade down generations, whilst continuing to enjoy the tax freedoms that the pension wrapper will provide.

Each time a pension fund is inherited, the new owner has control over the eventual destination of those funds.

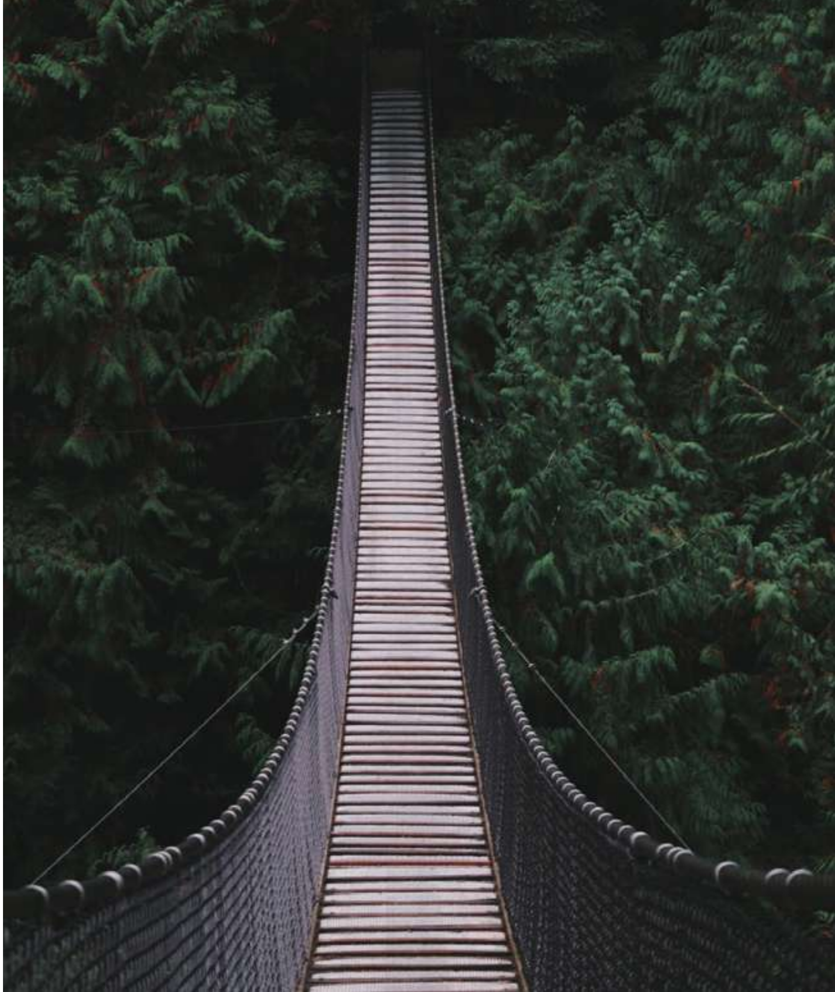
Disclaimer

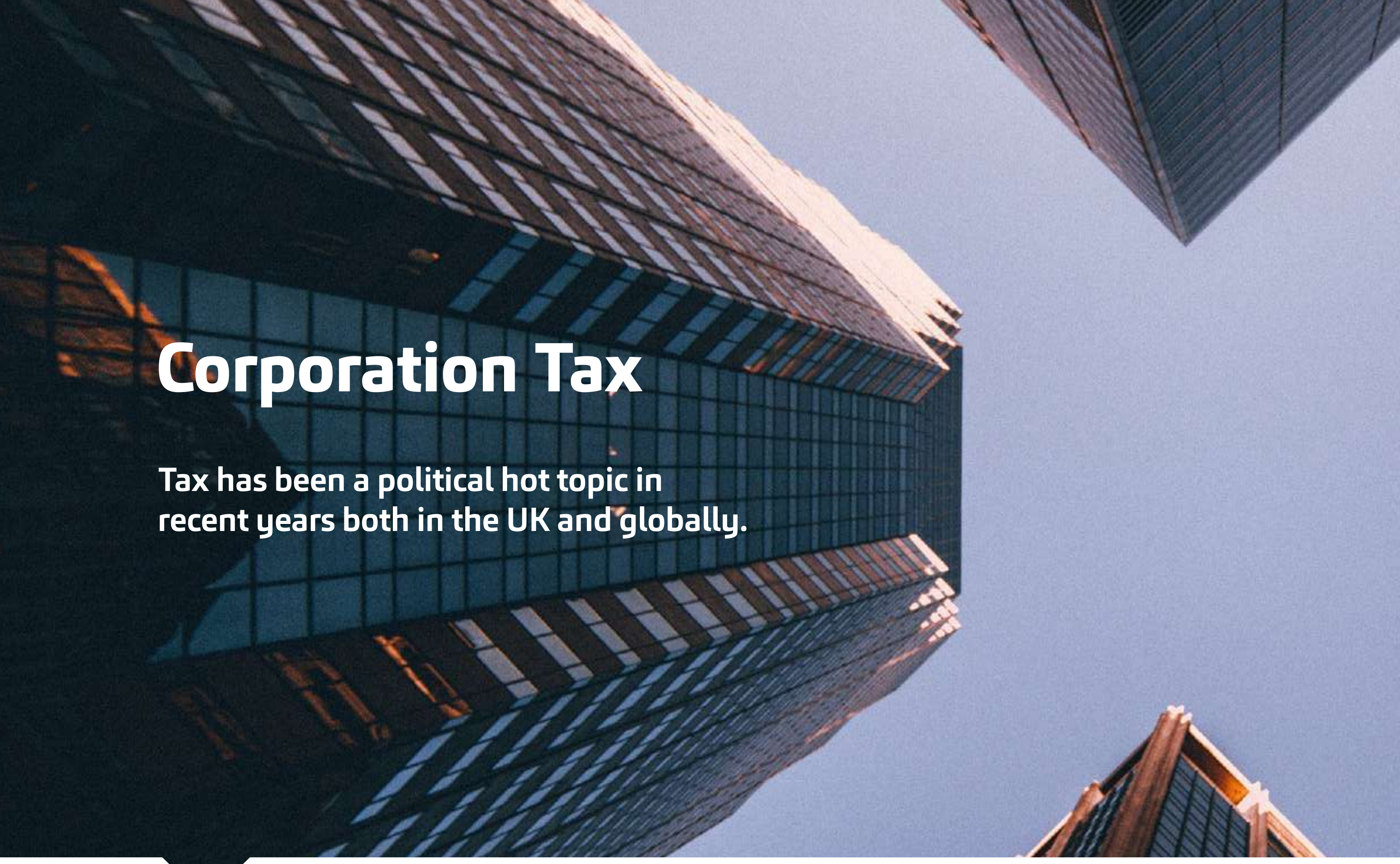
The purpose of this guide is to provide technical and generic guidance and should not be interpreted as a personal recommendation or advice.

The value of investments can go down as well as up and you may not get back the full amount you invested.

Stakeholder pensions

1. There is flexible access to pensions from age 55 (potentially 57 from 2028) and is set to remain at 10 years below state pension age
2. Pension drawdown restrictions have been relaxed
3. Some final salary pensions can be switched to DC, but some transfers from public sector schemes are no longer allowed
4. Death benefits from a defined contribution pension paid to beneficiaries before age 75 will be completely tax free
5. Death benefits paid to beneficiaries after age 75 will be subject to tax at the beneficiary/nominees marginal rate
6. The 25% tax-free amount no longer has to be taken all at once on retirement. It is possible to take smaller amounts over time, each with 25% tax free





Corporation Tax

Tax has been a political hot topic in recent years both in the UK and globally.

To help businesses through the pandemic, in the short term HMRC had relaxed its criteria for repaying corporation tax where profits had been adversely impacted. This enabled companies that found trading very difficult recover much needed cash.

Beyond this there was very little change to corporation tax as a result of the pandemic. Filing deadlines were generally not relaxed and the most significant additional relief has been the extension of the annual Investment allowance of £1m to the end of 2021.

However, the Government was already committed to supporting economic growth through infrastructure spending and "levelling up" those parts of the UK that have suffered under-investment. Added to this is the imperative of beginning to repair HM Treasury finances ravaged by the pandemic while the short and medium effect of Brexit are still not understood with certainty.

Reflecting on the last period of difficulty, following the 2008 / 2009 financial crash there was substantial action by HMRC both alone and in concert with other tax authorities to modernise the tax system for companies and reduce or eliminate tax leakage by use of both domestic and international planning. Given the impact of the events of 2020 on HM Treasury it may well be the case that further steps will be taken to tax companies effectively through the corporation tax system.

Conversely, Government is keen to encourage business as a means of economic recovery. To benefit from current and future incentives and mitigate the effects of future developments to recover more corporation tax, companies should maintain a rigorous approach to managing their tax profile and taking every opportunity to claim relief that is available.

Corporation tax rates

The UK has a highly competitive corporate tax system and has deliberately sought to be one of the most competitive amongst the G20 nations. Corporation tax rates are currently 19% (from April 2017) for all UK companies.

It remains to be seen if the UK and other governments seek to increase their corporate tax rates or offer more tiered tax rates or reliefs to assist certain sectors such as hospitality and retail recover while recovering more tax from businesses that have thrived in recent months.

To manage ongoing liquidity companies should rigorously manage their tax payments on account to mitigate overpaying instalments as recovering overpayments and refunds from HMRC may otherwise take some time.

Action Point

To prevent liquidity damaging overpayments, companies should review their processes for determining their payments on account and seek to make these as accurate as possible while factoring in all the benefits of incentives and then ensuring those incentives are realised.

Income and expenditure

The general tax planning strategy should normally be to defer income and make full use of all available allowances and deductions. If liquidity is not a concern some thought should be given to when relief is claimed if it becomes apparent there is a need to mitigate the effect of higher tax rates in the future.

Income

Income is reflected for tax purposes in accordance with what is termed generally accepted accounting principles (GAAP). The general principle is that income arises when the work is done, or the goods are supplied and not when you are paid. It may be possible for income to be deferred into a later accounting period. However, the accounting policies must be applied on a consistent basis from one year to the next and must be consistent with GAAP.

Action Point

Companies should review their compliance with rules relating to international trading with affiliates, CCO and tax strategy and put in place compliance processes if needed before year end. MHA tax specialists are on hand to give guidance on these complex areas.

Expenditure

There are several ways in which a company can maximise deductions for expenses in an accounting period. Planned expenditure, for example on repairs, could be brought forward, or in some instances, a provision could be made in the accounts for future costs. In general, tax relief is allowed for provisions made in accordance with GAAP

The following items merit review:

1. **Bad debts**
   The debtors' ledger should be reviewed in detail so that provisions and/or impairments can be made for bad debtors. It is important that evidence is available where a provision is to be made, that the circumstances under which the debt have proven to be bad were in existence as at the balance sheet date.

2. **Stock**
   The company can make a specific provision against slow-moving, damaged or obsolete stock, but a general provision is not allowed against tax. The company might be able to change the way it values stock, but great care needs to be taken.

3. **Bonuses**
   It might be possible to make a provision for bonuses and/or other remuneration to be paid in the following year, thus advancing tax relief. For such a provision to be allowable, it must be possible to establish that the liability to make the payment existed at the balance sheet date and that the payments must then be paid within nine months of the end of the period, otherwise they will be deductible only in the accounting period in which they are paid.

4. **Pension Contributions**
   If the company has a registered occupational pension scheme (including schemes such as a SIPP or a SASS for the directors and their families), tax relief is given for contributions actually paid in the year, rather than the amounts provided for in the accounts.

Research and development tax relief

Companies carrying out qualifying research and development (R&D) activities can save corporation tax, depending on the costs incurred. Only companies can claim this relief. Sole traders and partnerships cannot. Generally speaking, the relief is under claimed and it is important to identify any potential R&D projects. The section on enhanced tax reliefs sets out more details.

Maximising tax relief for capital expenditure

Before the end of your accounting period you should seek to make use of the annual investment allowance (AIA) and other capital allowances. You may decide to bring forward capital expenditure, particularly where the AIA will be exceeded in the following accounting period. Remember there are rules dictating when capital allowances can be claimed, for example, the requirement for the asset to belong to the company and in respect of extended payment terms.

The AIA has been extended until £1m until 31 December 2021. The recently introduced Structures and Buildings Allowance at 2% per annum (3% from April 2020) for new commercial buildings acquired on or after 29 October 2018 also needs to be factored into your planning.

Action Point

As with all tax advice and specific opportunities, there has to be a balance met between the commercial objectives of the company and any implementation of the issues mentioned above. This should be spoken through with your local MHA tax specialists who specialise in ensuring advice is technically sound, commercially appropriate and necessary.

Combating tax avoidance

The extent to which compliance with anti-tax avoidance and evasion measures are being tested by tax authorities, auditors and due diligence teams is noticeably increasing. New tax rules, referred to as DAC6 add to these anti avoidance rules by placing an obligation on intermediaries such as accountants, solicitors and banks to disclose tax authorities if they assist with certain broadly defined cross border arrangements involving the UK or EU although UK compliance with DAC6 is significantly reduced following the end of Brexit transition and the entry into the UK EU Trade deal. The UK will adopt the OECD Mandatory Disclosure Rules going forward.

Period of rapid change

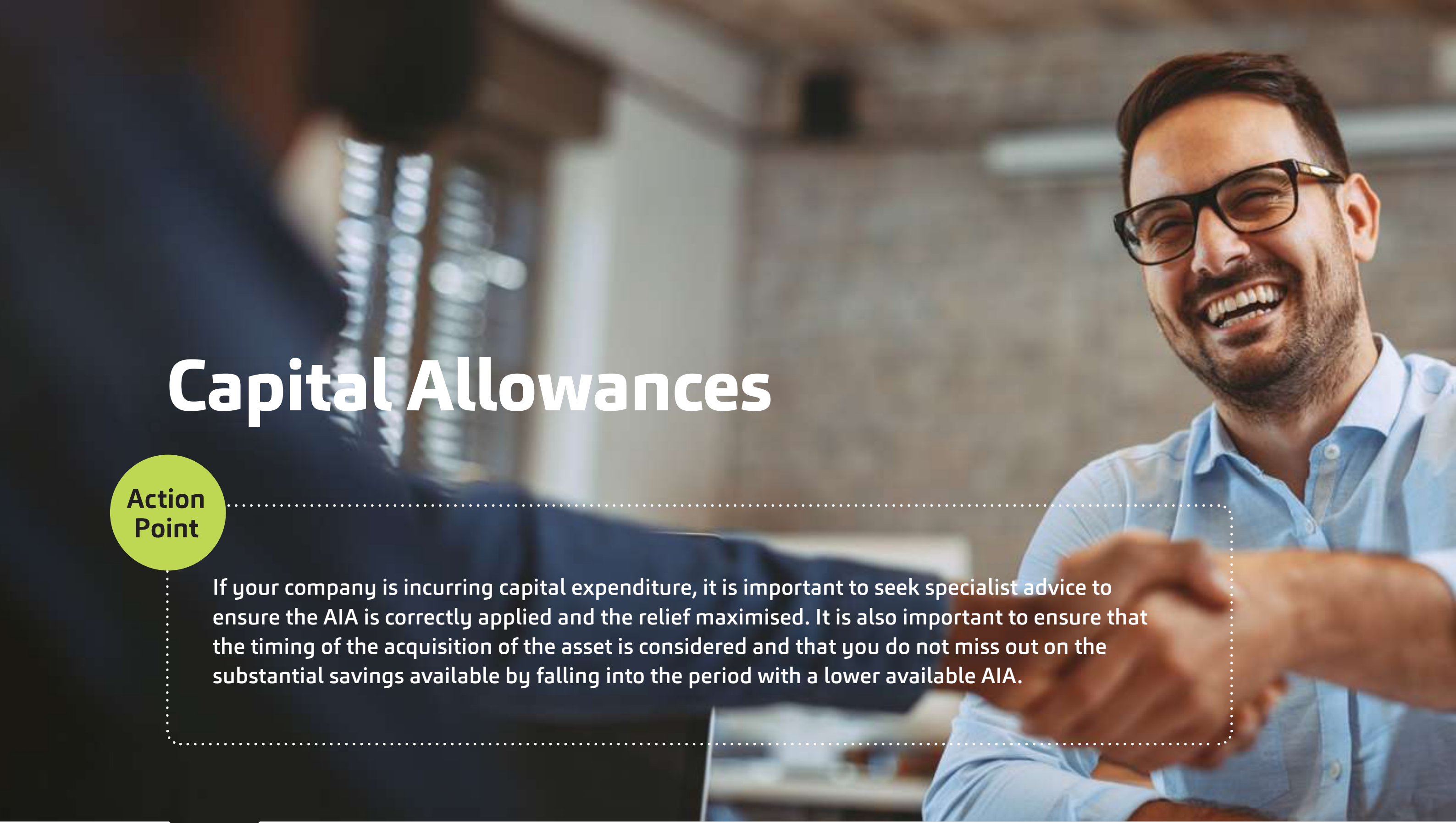
The widescale adoption of working remotely brought about by the pandemic means colleagues may choose to work outside the UK and deliver their role remotely.

Furthermore, the separation of the EU and UK may mean an EU or UK hub, or office may be established by a UK or EU based business respectively to assist in accessing local markets.

In both cases operating from new locations may well expose businesses to corporation tax rules in the location of this new branch as the global tax system operates based on where activities are undertaken, referred to as residence, in determining where a company may be taxed.

Action Point

Businesses planning to operate in new locations including staff working remotely outside the UK should take advice on "residence" and whether they will be taxed in more than one country as well as the attendant VAT, payroll tax and legal matters that also may arise.



Capital Allowances

Action Point

If your company is incurring capital expenditure, it is important to seek specialist advice to ensure the AIA is correctly applied and the relief maximised. It is also important to ensure that the timing of the acquisition of the asset is considered and that you do not miss out on the substantial savings available by falling into the period with a lower available AIA.

Annual investment allowance – extended to 31 December 2021

As part of the measures intended to assist businesses with the impact of Coronavirus, the Chancellor has again temporarily increased the annual investment allowance (AIA) to £1m, which means that the first £1m of qualifying expenditure can be relieved in full in the year it is incurred.

However, this increase is temporary and is again scheduled to reduce to its former allowance of £200,000 from 1 January 2022. The AIA is not as straightforward as it may seem, as the allowance must be pro-rated depending upon your year end. For instance, if you have a year end of 31 March 2022 you would be entitled to:

9/12 x £1,000,000 = **£750,000**

3/12 x £200,000 = **£50,000**

Giving a total AIA available for utilisation of £800,000. There are also limits on the amount that can be spent in each period based on the apportioned allowance.

Enhanced capital allowances

With the exception of capital expenditure in respect of electric car charging points, the Enhanced Capital Allowances (ECAs) regime was abolished from April 2020.

As there is a two-year claims deadline, businesses should review fixed asset expenditure in 2018 and 2019 to identify any ECA qualifying plant and machinery acquired up to 31 March 2020 where a claim could still be made for 100% first year allowances under the ECA regime. Under the ECA regime, a loss-making company also has the opportunity to surrender their identified ECA assets for a cash tax credit.

Structures and buildings allowance

A new form of relief was introduced following the Autumn Budget 2018, this relief awards a 3% (originally 2%) writing down allowance (on a straight-line basis over 33 1/3 years) against the cost of construction of non-residential properties or the elements of a mixed-use building which are non-residential. Although not dissimilar to the industrial buildings allowance, the new regime covers a much wider sector of construction.

However, the relief does not come without its pitfalls and the writing down allowance available each year reduces the base cost of the property when claimed; as such, upon disposal of the property, an increased chargeable gain may arise. This in turn causes an increase in the administrative burden in that an additional schedule must be prepared to keep track of the relief claimed and the reduced base cost of the asset. This relief is available in respect of construction contracts which were entered on or after 29 October 2018.

Integral features uplift opportunities

The ‘new’ fixtures pooling requirement came into force with effect from 1 April 2014 and affects all property disposals after this date.

The statutory pooling requirements essentially cover two key aspects:

1. The vendor must ’pool’ the value of all fixtures in the property being disposed of which they have been entitled to; and
2. The two parties must enter into an s198/s199 fixtures election to formally elect the vendor’s disposal values and the acquirer’s acquisition values. This must be completed within two years of the date of the transaction.

Enhanced Tax Reliefs

A company may be able to claim enhanced tax reliefs which give a tax deduction of more than 100% for a range of expenditure which HMRC are seeking to encourage, including:

1. Research and development (R&D) Tax Relief, where relief can be up to 230%
2. Patent box and the reduced tax rate of 10% on certain profits
3. Creative sector tax reliefs where relief can be up to 200%
4. Land remediation reliefs where relief can be up to 150%

For loss making companies, the losses created by these reliefs can often also be surrendered to HMRC for a cash tax credit.

Research and development

Small and medium sized enterprises (SMEs) are given an enhanced deduction against tax of 230% of the actual eligible costs incurred, with the chance of actual cash refunds in loss making situations. For large companies, the basic tax relief is an "above the line" taxable credit of 13% from 1 April 2020 (12% from 1 January 2018 to 31 March 2020) of qualifying expenditure.

R&D broadly applies where work is being carried out to overcome scientific or technical uncertainty. The eligible expenditure covers staffing costs, consumables, certain other costs such as power, fuel, water and software, sub-contracted work and externally provided workers. It must be related to a trade carried on by the company or be expenditure from which it is intended that such a trade will be derived.

In some cases, small or medium sized companies may be able to claim under the large company scheme if they are precluded from the relief available to small and medium sized companies.

Following a recent consultation, the Government have announced that R&D tax credits would be capped by reference to a company's PAYE and NIC spend, effective from accounting periods beginning on or after 1 April 2021.

It has been confirmed that the cash payment available to loss making SME companies will be capped at what is effectively '£20,000 plus three times the total of the company's PAYE and National Insurance Contributions'. Helpfully the calculation of PAYE and NIC can take into account certain connected parties.

This cap is intended to restrict perceived abuse of the SME R&D scheme and SME companies who subcontract substantial amounts of R&D (so who may have lower PAYE/NIC costs) should model any impact.

There is an exemption from the restriction in certain limited circumstances so affected companies can also consider if the exemption can apply.

Action Point

Companies should consider whether they could benefit from being taxed under the patent box regime and make the appropriate election within the deadline, which is generally two years from the accounting period end.

To protect genuine businesses from the cap, the Government is consulting on the following:

1. Introducing a threshold below which the cap will not apply i.e. the tax credit is below a stated amount.
2. Allowing the company to bring in PAYE/NIC's paid in respect of the R&D activity carried on by a connected company.
3. Where a loss cannot be surrendered because of the cap, allowing the losses to be surrendered for a tax credit in a later period where sufficient PAYE and NIC was paid – subject to a two-year time limit.

To date, the above has been considered in consultation papers, but nothing has been announced in regard to the rules and protections that will apply.

Patent box regime

The patent box provisions introduced in 2012 can also currently be utilised to reduce tax following R&D activities that culminate in patented innovations. The Patent Box regime is being phased in to effectively apply a 10% tax rate to all profits attributable to products, processes or royalties that carry or include a qualifying patent.

Changes were made to the regime to change the method of calculation for new entrants to the scheme joining after June 2016. Existing entrants are able to continue using the method on patents applied for prior to June 2016 until June 2021.

Creative sector

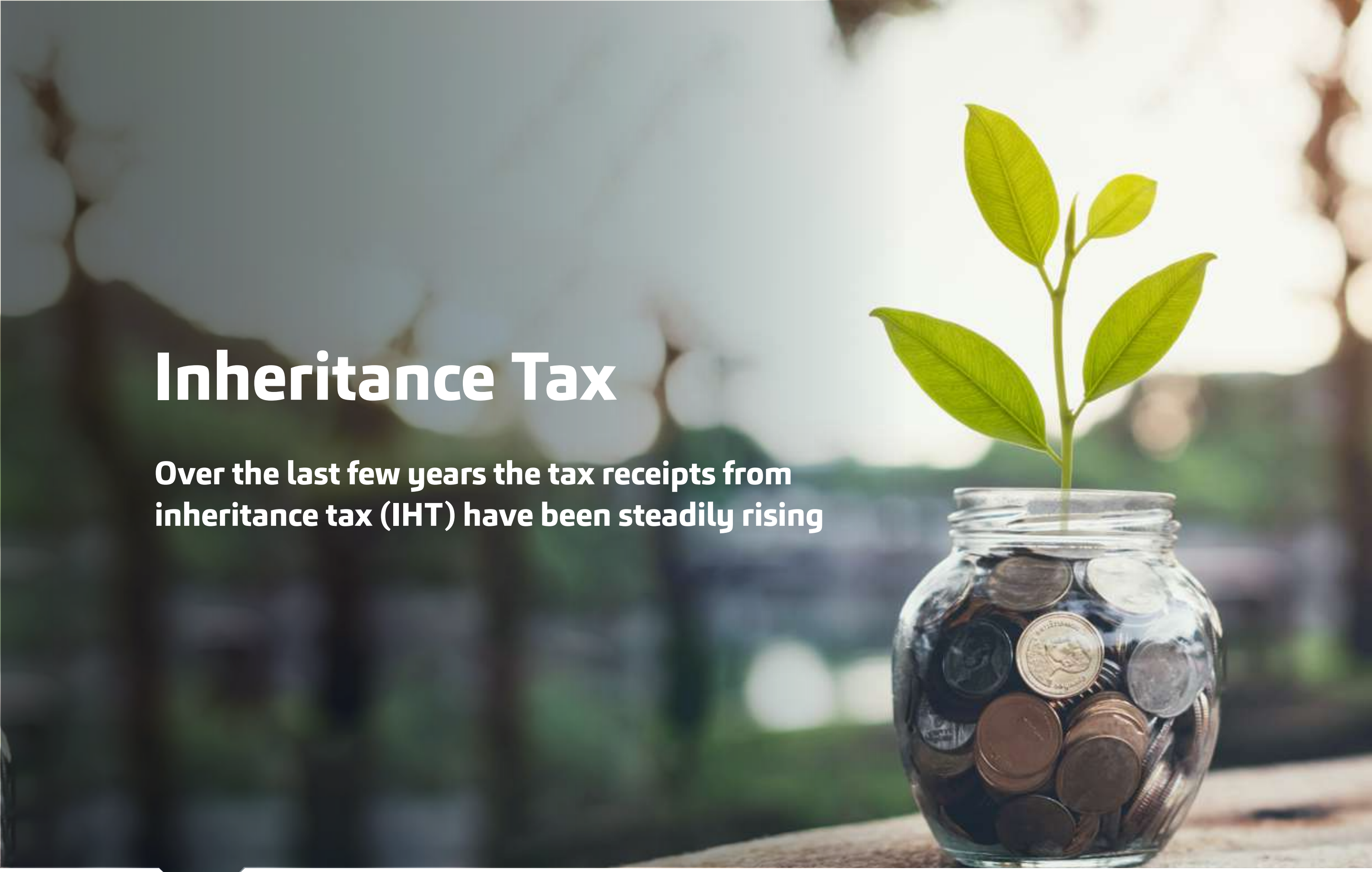
Creative sector tax reliefs are a growing suite of special tax breaks that are being made available. Examples of this include films, animation programmes, high end TV programmes, video games, theatres, orchestras and museum and gallery exhibitions.

There are detailed and differing conditions for each of these potential reliefs, which companies should seriously consider in order to not miss out on possibly significant tax reliefs.

Land remediation reliefs

Relief can be available on the cost of cleaning up land which had been acquired in a contaminated state. The relief is 150% of the costs incurred and can apply irrespective of whether the costs have been treated as revenue or capital in the financial statements.

This relief is commonly related to clearing out asbestos from old buildings but can also apply to naturally occurring arsenic or radon. Special rules apply to Japanese knotweed. A similar relief may be available for companies that bring long term derelict land back into use.



Inheritance Tax

Over the last few years the tax receipts from inheritance tax (IHT) have been steadily rising

This is in part due to increasing property prices and wealth while the nil rate band (the threshold at which you start to pay IHT) is frozen at £325,000. The other reason is that many of the reliefs and exemptions available are often not utilised.

The right planning for many individuals can take them out of the IHT net completely and for others there are significant savings going unused.

Annual gifts

There are a number of reliefs and exemptions for IHT, some common ones to consider annually are:

1. **Annual Exemption –** An amount of up to £3,000 can be given away each tax year and, if unused in a year, that amount can be carried forward for one year and utilised in the following tax year.

2. **Small gifts exemption –** You can give up to £250 to as many people as you wish each tax year.

3. **Gifts out of income –** if your income regularly exceeds your expenditure, you can give away the excess. To gain this relief, the gifts must be part of a settled pattern of giving or there must be evidence of the intention to make these gifts. It may be necessary to ensure that you have evidence demonstrating that the gifts have been made out of your post tax income.

Action Point

- Are your assets structured to make best use of the allowances?
- Have you passed on assets that you no longer require to the next generation or even skipping a generation?
- Are your assets functioning to provide you with enough income if you are retired or will they when you retire?

If the answer to any of the questions above is no, now is the time to be looking at your IHT position.

Considering the above gifts should become part of your annual tax planning, although it is also important to make sure you are leaving yourself sufficient income for your needs.

Longer term planning

In addition to considering utilising gifts on an annual basis, you should also take a look at your overall position every few years.

1. **Potentially exempt transfers (PETS) –** a gift to an individual (family or others) that is in excess of the annual or small gifts exemption. There is no immediate charge to tax and if the donor lives for 7 years from the date of the gift, it is exempt from IHT. There is a tapering of the relief after 3 years that increases up to the 7 years.

2. **Chargeable lifetime transfers (CLT) –** this is usually on a gift to a trust. Lifetime IHT is charged at 20% on the excess over the nil rate band of £325,000.

3. **In addition to the nil rate band** that can be used in lifetime and on death, there is a residential nil rate band available only on death. This is a valuable relief but restricted on estates over £2million. Where appropriate, restructuring between spouses or civil partners to ensure both are below the £2 million means the relief is available on first death and further planning before the second can mean both bands can be utilised.

4. **Trusts –** while trusts have dropped in popularity in recent years, they are still a very useful tool in estate planning as it allows a degree of control over the assets after they have been given away. You cannot benefit from them, but you can have control over what happens to them which can be particularly useful where minor children are involved, or for older children where divorce is a concern.

5. **Family investment companies –** these are becoming more popular and are often being considered in place of trusts although both can be used together.

6. **Business relief and agricultural property relief –** these are complex but can provide very significant relief from IHT so it is important to take advice and ensure you are eligible and that you can evidence this should it be needed.

7. **IHT efficient investments –** there are many of these available, many of which utilise Business relief and agricultural property relief. Appropriate investment advice would be needed when considering such planning, as the commercial risk needs to be considered as well as the tax benefits.

This is a brief summary of some of the most common reliefs and planning options for IHT. When planning for IHT it can also have an effect on both income tax and capital gains tax. It is therefore important to take advice so that it is all done correctly. Planning should be tailored to you and your family ensuring you have sufficient funds in lifetime as well as being tax efficient for the next generations.

Scottish Taxes

In Scotland, income tax is a partially devolved tax. The Scottish Government are responsible for setting the rates and bands each year for non saving income.

The UK Government continue to set the rates for all other income and also all the allowances and reliefs that apply. The collection of tax including Scottish income tax continues to be the responsibility of HMRC. Once collected, the Scottish income tax is then paid via H M Treasury to the Scottish Government.

What income does the SRIT affect?

The SRIT currently applies only to non savings income. Non savings income includes employment, pensions, self-employment and property income. All savings and investment income remains taxable at the rates and tax bands set by the UK Government and is expected to remain so for the foreseeable future.

2020/21 tax rates in Scotland

Starter rate 19%	**£0 - £2085**
Basic rate 20%	**£2,085 - £12,658**
Intermediate rate 21%	**£12,658 - £30,930**
Higher rate 41%	**£30,930 - £150,000**
Additional rate 46%	**£150,000 +**

The personal allowance, along with the other allowance such as savings and dividends are set by the UK Government and apply to Scottish taxpayers on the same basis as all UK taxpayers.

Action Point

If you are a UK resident who splits their time between Scotland and the rest of the UK, you should consider your position carefully and make sure the facts reflect and support your intentions when declaring whether you are a Scottish taxpayer or not. Our Scottish MHA tax advisers are on hand to assist in defining your position.

2020/21

While we would usually have a Scottish Budget in the Autumn, like the UK Budget, this has been postposed this year. The Scottish Budget is due to be announced on 28 January 2021 and Scottish rates for the 2021/22 tax year will be part of this announcement.

How to define a Scottish taxpayer?

If you live full time in Scotland, you will be a Scottish taxpayer. If you split your time between Scotland and elsewhere in the UK, you need to look closely at the definition of a Scottish taxpayer. Contrary to speculation, this is not based on the number of days in Scotland. It is based on a number of factors in which the number of days can play a part. The main deciding factor is where your home is. The home or main residence is determined by where your family is based, where your main ties are such as your doctor, golf club and any other indicators that show a property is your home. This catches those living in Scotland and working in London.

Tax planning

Where individuals have the ability to choose how they take income, such as those with their own company who can choose between salaries and dividends, there is careful planning that can be done. If an individual has more than one home throughout the UK it is important to consider the position personally to ensure you are taxed on the correct rates. Gift aid & pension contributions still receive relief based on the UK rates at 20%.

Welsh Taxes

The Welsh Government was given the power to set, collect and monitor two new taxes, land transaction tax (LTT) and landfill disposals tax (LDT), from 1 April 2018. LTT largely replicates stamp duty land tax (SDLT) and LDT is the replacement for landfill tax.

Land and property transactions in Wales undertaken from 1 April 2018 will be subject to LTT rather than SDLT. The Welsh Government has announced the rates of LTT which differ from the rates of SDLT to try and better reflect the economy of Wales. LTT will essentially have the same body of rules as SDLT, including special rules for partnerships for example, together with anti-avoidance rules. If land straddles the Wales/England border, a just and reasonable apportionment should be made.

Partial income tax raising powers arrived in April 2019. The UK Government will take 10% off the three rates of UK income tax applicable to non-savings and non-dividend income of Welsh resident taxpayers. The Welsh Government will then decide on its own rate to be added for "Welsh residents" for this type of income. For the 2020/21 tax year, the Welsh Government has set the Welsh rates at the same level as in England and Northern Ireland. This means that for 2020/21, the rates of income tax will essentially remain the same for Welsh taxpayers and no difference will be noticed. The Welsh Government may choose to set different rates to reflect Wales' social and economic circumstances. Whatever the rate, the UK Government will still collect the Welsh tax on behalf of the Welsh Government.

Appropriate adjustments are then due to be made to the basis for funding Wales by the UK Government.

Northern Ireland Taxes

There are no differences between the taxation regime in Northern Ireland and England. However, the outcome of the Brexit negotiations are likely to have a significant impact as covered in the Brexit section of this guide.

Republic of Ireland Taxes

The fiscal year end in the Republic of Ireland has been 31 December for a number of years now. That means that individuals' income tax returns are based on a year to 31 December. Companies and businesses (including sole traders and partnerships) may have their own accounting year end, although in most cases these are also 31 December.

A number of tax mitigation techniques can be used when coming up to an accounting year end or a tax year end. We set out some of the main ideas here.

Income tax

You may have some control over your level of taxable income in a year (for instance where you can decide appropriate salary or dividends paid to you by a company under your control). In such cases you should ensure that both you and your spouse (and perhaps also your children), where appropriate, are taking full advantage of the 20% income tax rate band (€35,300 for 2020 and 2021 for single individuals).

If you are due a refund for 2017 – for instance due to unclaimed medical expenses, pension contributions or college fees, or due to overpaid PAYE on receipt of a termination payment – then the deadline for making an income tax refund claim is 31 December 2021.

If you have personal trading losses, you may be able to offset them against other sources of income for tax purposes.

Tax based investments, such as employment and investment incentive schemes (EIIS) should be made and certified as appropriate prior to the year end in order to avail of income tax relief for the year.

Capital acquisitions tax

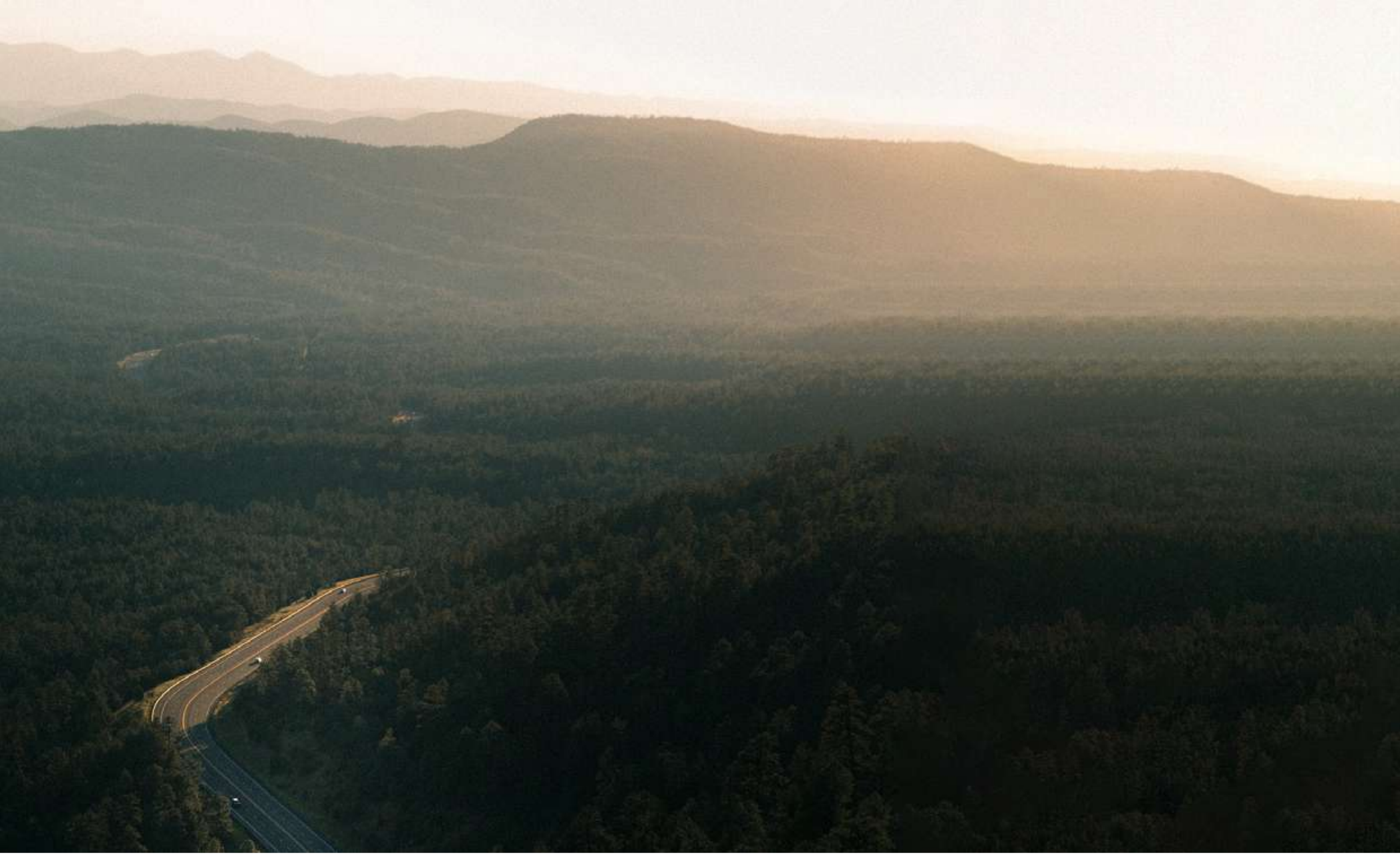
The small gift exemption – whereby up to €3,000 can be paid to any number of beneficiaries with no capital acquisitions tax (CAT) arising on the payment – is a useful tool as part of an overall succession planning strategy. When spouses, children and grandchildren are included as part of these smart gifting arrangements, combined with utilising the maximum relief every year, significant sums can be passed on to loved ones over a period of time. Plan to make such gifts both before and after the year end.

Capital gains tax

If a transaction resulting in a large capital gain is going to occur, give some consideration to deferring it to a new tax year or accounting period. Where you have realised chargeable gains in a tax period, consider crystallising transactions which trigger a capital gains tax loss or make negligible value claims. In order to be useful, these transactions should take place within the relevant tax year.

Business year end strategies

You should always ensure that you arrange your business affairs at the accounting year end to defer income and accelerate allowable deductions to as great an extent as possible. Where income can be reasonably put back to the new year, you should consider doing so; accelerate planned expenses such as repairs, pension payments, bonus payments and the acquisition of capital items that carry with them capital allowances (especially energy efficient machines that carry 100% capital allowances in year one). Gift vouchers up to a value of €500 can be paid to employees once a year tax efficiently.



Corporation tax

Some specific items are worth keeping in mind when looking at year end strategies:

1. Your corporation tax return for the year ended 31 December 2017 should be long submitted by now. In any event, if your company is entitled to a corporation tax refund for 2019, an amended tax return must be submitted by 31 December 2021.

2. Generous R&D credits must be claimed within 12 months of the year end, and this is strictly imposed.

3. There is a two-year deadline for offsetting trading losses against other income.

4. Ensure that any dividends which are required to be paid to avoid a close company surcharge are paid within 18 months of the company's year-end.

5. If loans are made by a company to its participators and the loan is in place at the year end, a tax charge arises. Give consideration to having such loans paid off in advance of the year end – there may be strategies which allow for relatively easy ways to achieve this outcome.

The strategies outlined are some general, practical ideas to save tax or defer tax when a year-end is looming.

They also illustrate the significant benefits that arise from thinking about your overall tax strategy and simply sitting down with your MHA tax adviser to discuss your tax strategy. These are, of course, guidelines only, and specific advice should be sought in each case.

With effect from 1 January 2020, Irish resident companies must withhold Dividend Withholding Tax ("DWT") at the rate of 25% (20% pre 1 January 2020) on dividend payments and other distributions to individual shareholders who are not entitled to an exemption.

Action Point

Residential status is becoming increasingly more important from a tax perspective and it is essential to get local advice based on your circumstances. If you think you may be, or if you are, an Irish taxpayer and would like to know more about how this affects you personally, please get in touch with Baker Tilly in Dublin, the Baker Tilly International Republic of Ireland member firm.

To find out more about the accountancy and business advisory services MHA can offer, please contact

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