Dental Focus

DRIVING LIFELONG PROSPERITY

Winter 2019

SPOTLIGHT ON TAX ALLOWANCES

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Use your tax allowances before 5 April 2019

DIVIDENDS

The tax-free allowance on dividend income is £2,000. Owners of incorporated practices should ensure that full advantage has been taken by declaring and paying dividends before 5 April 2019.

PRESERVING PERSONAL ALLOWANCES

High earners with income over £100,000 should be aware that their personal allowance is reduced by £1 for every £2 of net income over £100,000. This means anyone with income between £100,000 and £123,700 could be paying tax at an effective rate of 60%.

If your income is close to the threshold you can reduce your taxable income by making pension contributions, charitable donations or investing in tax relievable investments such as venture capital trusts or the enterprise investment scheme. Depending on the timing, it may be possible to transfer income producing assets to a lower earning spouse, or transfer assets to assist planning in 2019/20 and beyond.

HIGH INCOME CHILD BENEFIT CHARGE

Taxable income exceeding £50,000 for the year could lead to a clawback of child benefit. Once taxable income reaches £60,000, child benefit will be lost in full.

Reducing, deferring or transferring taxable income, as described above for preserving your personal allowance, could help to reduce this charge.

INTEREST RECEIVED

The personal savings allowance means that the first £1,000 of savings interest is tax free. This is reduced to £500 for higher rate taxpayers and nil for additional rate taxpayers. Banks no longer deduct interest at source, so it is essential all interest received is identified and relief claimed.

Companies may pay interest to directors/shareholders on their loan accounts to make use of their individual allowances.

REMUNERATION PLANNING

Incorporated practices should review their remuneration packages in advance of the new tax year. Depending on the circumstances, a combination of low salary, high interest and dividends could result in tax-free income of up to £19,850 in 2018/19. However, there are other factors to consider, for example NHS pension income requirements.

RENTAL INCOME

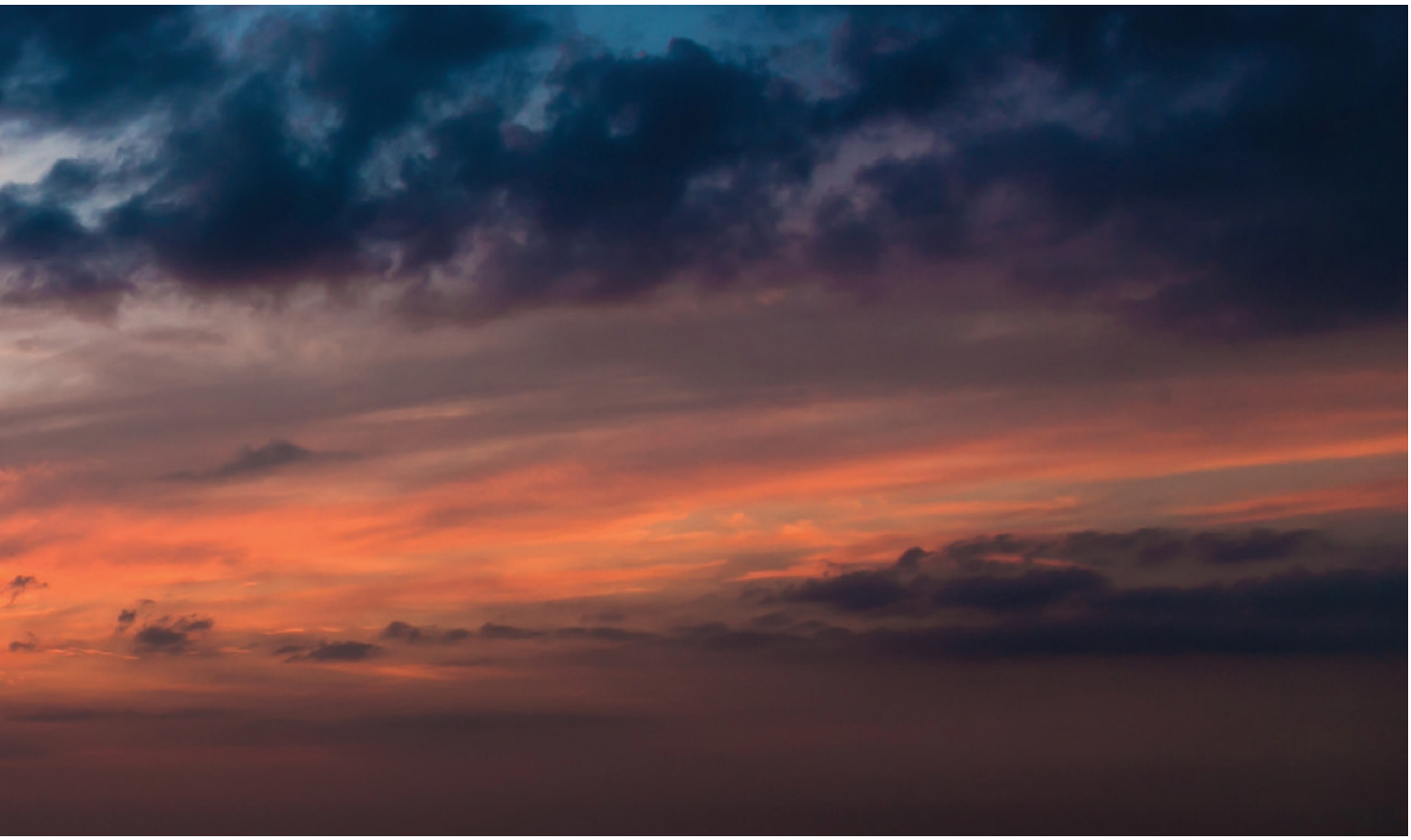
The phasing in of the restrictions on mortgage interest deductions for landlords continues. From 6 April 2018, 50% of mortgage interest deductions are restricted to the basic rate, increasing to 75% from 6 April 2019. A review of your circumstances would be sensible in order to identify any tax savings opportunities; for example, whether the property allowance would help to reduce your tax liability.

ISA ALLOWANCE

If possible, you should make full use of your ISA allowance of £20,000. Although the investment itself does not attract any tax relief, any income generated from it will be tax free.

CAPITAL GAINS TAX ANNUAL EXEMPTION

The CGT annual exemption for all individuals for 2018/19 is £11,700, which you should plan to use, if possible. Consideration should be given to the transfer of assets between spouses, such that both utilise their annual exemptions on a subsequent disposal.



Budget update

INCOME TAX

The Chancellor maintained his commitment to increase tax thresholds, particularly for the low or average paid worker. The tax-free personal allowance will increase to £12,500 in 2019/20 and the basic rate tax band will become £37,500. This means that an individual will not pay higher rate tax (40%, or 32.5% on dividends) until their taxable income is greater than £50,000.

SAVINGS

Tax on savings was also mostly unchanged. The band of savings income that is subject to the 0% starting rate will be kept at its current level of £5,000 for 2019/20 and the adult ISA annual subscription limit for 2019/20 will remain unchanged at £20,000. The annual subscription limit for junior ISAs and child trust funds for 2019/20 will be increased in line with CPI to £4,368.

ANNUAL INVESTMENT ALLOWANCE

As expected, the Chancellor introduced some tax measures to stimulate investment in UK businesses. The annual investment allowance (AIA), which provides a 100% deduction from taxable profits for qualifying capital expenditure, has been increased from £200,000 per annum to £1 million per annum for a two-year period from 1 January 2019.

This is estimated to cost the Government circa £1.2 billion in the two-year period, but as apparently only 1% of businesses exceed the current AIA threshold, this suggests that businesses are expected to accelerate expenditure as a result.

ENTREPRENEURS' RELIEF

The qualifying period for entrepreneurs' relief (ER) is increasing from 12 months to 24 months for disposals on or after 6 April 2019. As a transitional measure, where a business ceased prior to 29 October 2018 the qualifying period remains 12 months, regardless of whether the disposal occurs after 5 April 2019, so as to avoid any element of retrospective taxation. The qualifying period is the period throughout which certain conditions must be met to obtain the relief.

In addition, new conditions were proposed for the sale of shares in a company, effective for disposals on or after 29 October 2018. The original draft legislation included a requirement for a shareholder to have beneficial entitlement to at least 5% of the profits available for distribution and 5% of the assets available on a winding up. Shareholders in companies with multiple classes of share capital could potentially have lost their entitlement to ER because the articles of association are often drafted in such a way that a dividend can be declared on each class of share to the exclusion of the others and there is no absolute entitlement to at least 5% of any distribution.

Following representations to Government by Hazlewoods and other members of the accounting profession, these rules were subsequently updated and the revised tests are set out below.

As a reminder, prior to the Budget, a shareholder could qualify for ER where the company is a trading company and the shareholder is an employee or officer of the company and holds at least 5% of the company's ordinary share capital, giving them at least 5% of the voting rights. These conditions have not changed.

The revised legislation states that in addition to the above conditions the shareholder is now required to:

1. be beneficially entitled to at least 5% of the profits available for distribution to equity shareholders and, on a winding up, would be beneficially entitled to at least 5% of assets too; or
2. in the event of a disposal of the whole of the ordinary share capital of the company, the shareholder would be beneficially entitled to at least 5% of the proceeds.

Compared to the original draft legislation, this is good news for shareholders in companies with more than one class of shares who should be able to claim ER if these conditions are met. However, at the time of writing, the Finance Bill still needs to be passed by the House of Lords and Royal Assent granted.

Care should be taken if you are planning to sell your limited company to ensure the qualifying conditions for ER are met. Given the 24-month qualifying period, advance planning is essential.

STRUCTURES AND BUILDINGS ALLOWANCE

A new allowance is being introduced to give a 2% capital allowance for qualifying expenditure on new structures and buildings incurred from 29 October 2018. If building work has not started, relief will not be available if the contract was entered into before 29 October 2018. This allowance applies to dental surgery extensions, so it is worth reviewing any plans for practice changes to ensure tax relief is maximised.

CORPORATION TAX PLANNING

The previously announced reduction in the corporation tax rate from 19% to 17% is due to apply from 1 April 2020. If you are planning any significant expenditure in the next couple of years, it will be worth reviewing whether this can be completed before 31 March 2020 so that corporation tax relief is obtained at 19% rather than 17%.

CARS: SHOULD YOU LEASE OR BUY?

For many dentists, the amount of tax relief that can be claimed is quite low as there is limited business travel, so first work out which option is the best deal financially. This may not necessarily be the option attracting the most tax relief.

BUYING

For the cash purchase of a car, tax relief on the cost of the car is given as a capital allowance, which is normally spread over the period of ownership. However, for sole traders and partners, claims are restricted to the business use of the car and an adjustment is made in the business tax computations based on the proportion of personal mileage relative to total mileage.

If a loan is taken out to buy the car, tax relief will be given on the loan interest in addition to capital allowances on the cost of the car. As with the capital allowances, the deduction for the loan interest is restricted to the business use proportion for sole traders and partners.

Acquiring a car on hire purchase is similar to acquiring a car using a loan, with capital allowances for the cost of the car and a deduction for interest, both of which are restricted for business use.

LEASING

The tax rules for leasing a car are different, because the lessor retains ownership of the vehicle during the term of the lease. Capital allowances are not available because the lessor owns the vehicle but tax relief may be claimed on the rental payments. Again, this will be subject to a private use adjustment for sole traders and partners.

Cars with a CO^2 emissions figure exceeding 110g/km are subject to a further 15% restriction. For example, for a lease rental of £1,000 per month with 20% business use and CO^2 emissions of 140g/km, the tax deductible amount is £170 per month (£1,000 x 20% x 85%).

If there is an option to buy the vehicle with a single payment at the end of the lease, tax relief is available on the rental payments during the lease term and capital allowances may be claimed on the final purchase payment, subject to a private use adjustment.

COMPANY CAR

Where a limited company buys or leases a car there is no restriction for business use proportions in the corporation tax computations. However, a benefit in kind (BIK) is chargeable on the employee/director and Class 1A National Insurance is payable by the company. The BIK is based on the car's list price and its CO^2 emissions.

RUNNING COSTS

For sole traders and partners, whichever option is chosen to acquire the car, tax relief on the running expenses is the same. All costs can be paid by the business and a private use adjustment is made in the business tax computations. There is no private use adjustment for running costs for companies.

However, where a company pays for private fuel, an additional BIK arises. This is based on a set annual rate, linked to the CO^2 emissions of the vehicle. Very often this is not found to be worthwhile, as the amount of private mileage needs to be substantial to cover the additional tax cost.

ALTERNATIVE OPTION

An alternative option is for the car to be purchased personally. A mileage allowance can be claimed for business miles travelled, which includes a contribution towards all running costs. Currently, payments of 45p for the first 10,000 miles per tax year and 25p thereafter can be made without any BIK arising.

Cars can be a bit of a minefield when it comes to lease or buy decisions, so please get in touch if you have any questions.

CGT PAYMENT WINDOW TO BE REDUCED FOR SECOND HOMES

Disposals of second homes and buy-to-let properties are normally subject to capital gains tax (CGT). Under current rules, this is generally reported and any tax paid under self-assessment i.e. by 31 January following the tax year of disposal.

Depending on when the disposal takes place, residential property owners currently have somewhere between 10 and 22 months before CGT becomes payable.

Under new rules, to be introduced from April 2020, this payment window will be reduced to just 30 days.

As an example, under the current rules, a disposal completed on 10 April 2019 would not be subject to CGT until 31 January 2021. If, however, the individual disposed of a second property a year later, on 10 April 2020, the new rules would apply and CGT for that property would be due on 10 May 2020.

This is almost nine months earlier than payment would be due on the first disposal which occurred one year previously!

Some potential issues with the reduced payment window could include:

- Time to gather base cost and other information required to carry out the CGT calculation;
- The applicable tax rate to apply to the disposal – an estimate will likely need to be made of the individual's total expected income for the year; and
- Other disposals in the same year – if a gain is made on a property disposal at the beginning of the tax year and then subsequently a capital loss is made on another disposal, there is likely to be an overpayment of tax which is unlikely to be repayable until the self-assessment deadline.

ATTENTION: ALL NEWLY SELF-EMPLOYED ASSOCIATES

Becoming self-employed can be a daunting experience, so here is a brief checklist to get you started.

- Remember to register for self-assessment with HMRC.
- Start saving for tax. Your first tax payment will be 31 January following the end of the tax year in which you became self-employed. For example, if you became self-employed on 1 September 2018, your first tax payment will be due on 31 January 2020. This could be substantial and will include any student loan repayments – we can help you plan what to put aside.
- Keep records of your income and any business expenses.
- Appoint a specialist dental accountant to assist you!

Please contact Nigel Utting for further information.

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