C&J
CHARTERED CERTIFIED ACCOUNTANTS
REGISTERED AUDITORS

Call: (01736) 366433 or (01637) 876767
Email: info@craneandj.co.uk
Website: www.craneandj.co.uk

Tax E-News

Welcome to our latest monthly tax newswire. We hope you enjoy reading this newsletter and find it useful. Contact us if you wish to discuss any issues further.

May 2019

EXTRACTING PROFIT FROM THE FAMILY COMPANY

The start of the new tax year means that shareholder/ directors may want to review the salary and dividend mix for 2019/20. The £3,000 employment allowance continues to be available to set against the employers national insurance contribution (NIC) liability which means that where the company has not used this allowance it may be set against the employers NIC on directors' salaries.

Thus, where the only employees are husband and wife there would generally be no PAYE or employers NIC on a salary up to the £12,500 personal allowance.

There would however still be employees NIC at 12% on the excess over £8,632 (£166 per week) which would be £464 on a £12,500 salary, leaving £12,036 net.

Taxation of Dividend Payments in 2019/20

Traditional advice would then be to extract any additional profits from the company in the form of dividends. Where dividends fall within the basic rate band (now £37,500) the rate continues to be 7.5% after the £2,000 dividend allowance has been used. Thus where husband and wife are 50:50 shareholders they would each pay £2,663 tax on dividends of £37,500 assuming they have no income other than a £12,500 salary, leaving £34,837 net of tax.

So a combination of £12,500 salary and £37,500 in dividends would result in £46,873 (93.7%) net of income tax and NICs.

Ensure dividend payments are legal

The Companies Act requires that companies may only pay dividends out of distributable profits. This means that in the absence of brought forward reserves the company would need to provide for 19% corporation tax in order to pay the dividends and thus there would need to be profits of £92,593 in order to pay dividends of £75,000 (after providing corporation tax of £17,593).

Overall the combination of salary and dividends suggested above would result in net of tax take home cash of £93,746 for the couple out of profits before salaries and corporation tax of £117,593 (20.3% overall tax). This still compares very favorably with the amount of tax and NIC payable if the couple were trading as a partnership.

TAX PLANNING TO MINIMISE THE HIGH INCOME CHILD BENEFIT CHARGE

The substantial increase in the higher rate threshold to £50,000 is good news for many taxpayers. However, that same figure is the point at which child benefit starts being clawed back and there has been no increase in that threshold since the High Income Child Benefit Charge was introduced in 2013/14.

The charge applies if you have adjusted net income over £50,000 and either:

- you or your partner get Child Benefit
- someone else gets Child Benefit for a child living with you and they contribute at least an equal amount towards the child's upkeep

It does not matter if the child living with you is not your own child. Adjusted net income is your total taxable income before any personal allowances and less things like Gift Aid and pension contributions.

The charge is 1% for every £100 that adjusted net income exceeds £50,000 multiplied by the child benefit claimed in respect of the children. Child benefit continues to be paid at the rate of £20.70 a week for the eldest child and £13.70 for each additional child.

Example

A couple with 2 children would receive £1,789 a year in child benefit. If the husband, a sole trader, made a profit of £55,000 (also his adjusted net income) after paying his wife a salary of £12,000 he would have to pay the high income child benefit charge of £894 (for 2018/19) in addition to his normal income tax and NIC bill.

If he brought his wife into partnership and they shared profits equally their income would be £32,500 each and there would be no high income child benefit charge. Similarly, if the business was a limited company they would be able to equalize their income so that the charge would not be payable.

"RENT A ROOM" RELIEF TO CONTINUE FOR AIR BNB LANDLORDS

Last year HMRC carried out a review of rent a room relief and it was proposed that the availability of this generous relief would be restricted to situations where the taxpayer was resident for at least part of the time when the "lodger" was paying rent. The scheme currently exempts from tax gross rents up to £7,500 where rooms within the taxpayers' main residence are rented out.

HMRC were concerned that the relief was being "abused" by letting out the entire property using websites such as Airbnb and living elsewhere temporarily whilst the tenants were in the property. An example would be renting out a house in south London during Wimbledon fortnight and potentially receiving up to £7,500 tax free.

Note that the Autumn Budget announced that the proposed restriction was not now being introduced.

BUT POSSIBLE CHANGES TO CGT PRIVATE RESIDENCE RELIEF

The government is currently consulting on important changes to private residence relief that are likely to be introduced from 6 April 2020.

The two possible changes, announced in the Autumn 2018 Budget are:

Firstly to limit to just 9 months the period prior to disposal that counts as a period of deemed occupation

The second is to limit "letting relief" to periods where the taxpayer is in shared occupation with the tenant.

Final period exemption to be reduced

The final period exemption was for many years three years and was always intended cover situations where the taxpayer was "bridging" and waiting to sell their previous residence. However, 36 months was felt to be too generous and was allegedly being abused by a strategy known as "second home flipping". As a result the final period relief was restricted to the current 18 month period of deemed occupation a couple of years ago. The latest proposal is to restrict still further to 9 months although it will remain at 36 months for those with a disability, and those in or moving into care.

Possible Lettings Relief Changes

Lettings relief currently provides a further exemption for capital gains of up to £40,000 per property owner. The additional relief was introduced in 1980 to ensure people could let out spare rooms within their property on a casual basis without losing the benefit of PRR, for example where there are a number of lodgers sharing the property with the owner.

In practice lettings relief extends much further than the original policy intention and also benefits those who let out a whole dwelling that has at some stage been their main residence. It is those situations that the government appear to be attacking under the proposed changes.

Note that those who are renting their property temporarily whilst working elsewhere in the UK or working abroad are unlikely to be affected by this change as there are alternative reliefs available under those circumstances.

Please check with us if you are likely to be affected by the proposed changes as it may be worth considering disposing of the property before the new rules are introduced from 6 April 2020.

DIARY OF MAIN TAX EVENTS MAY/JUNE 2019

Date	What's Due
01/05	Corporation tax payment for year to 31/07/18 (unless quarterly instalments apply)
19/05	PAYE & NIC deductions, and CIS return and tax, for month to 5/05/19 (due 22/05 if you pay electronically)
01/06	Corporation tax payment for year to 31/08/18 (unless quarterly instalments apply)
19/06	PAYE & NIC deductions, and CIS return and tax, for month to 5/06/19 (due 22/06 if you pay electronically)

Call: (01736) 366433 or (01637) 876767
Email: info@craneandj.co.uk
Website: www.craneandj.co.uk