Godley & Co
Chartered Accountants & Tax Specialists

NEWSLETTER – JANUARY 2018

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Dear Friends

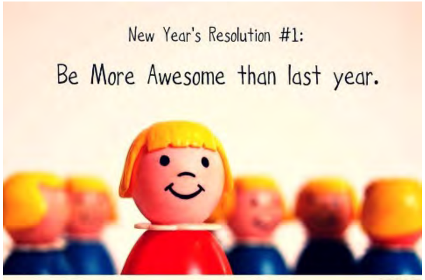
We are already more than halfway through January. If you haven't finalised your New Year Resolutions yet, this month's newsletter focuses on some ideas for you on how to save tax.

Please remember that for those of you submitting Tax Returns for the year to 5th April 2017, the looming deadline of 31st January 2018 is next week!

If you would like assistance with any of your tax matters in the coming months please do not hesitate to contact us.

We hope you enjoy reading this month's newsletter.

Best wishes - **Godley Tax Team**



NEW YEAR RESOLUTIONS TO SAVE TAX

Pension Planning

For most taxpayers the maximum pension contribution is £40,000 each tax year, although this depends on their earnings. This limit covers both contributions by the individual and their employer.

Note that the unused allowance for a particular tax year may be carried forward for three years and can be added to the relief for the current, but then lapses if unused.

For higher rate taxpayers the net cost of saving £10,000 in a pension is only £6,000 but this higher rate relief may not last forever.

Whilst there are substantial benefits, please note that pension planning requires careful and detailed consideration depending on your personal circumstances.

Passing on The Family Home

New inheritance tax rules for passing on the family home started on 6 April 2017. This new relief should be taken into consideration when drafting your Will and we can work with your solicitor to make sure your Will is tax efficient.

From 6 April 2017 an additional nil rate band of £100,000 is now available on death where your residence is left to direct descendants. This is in addition to the normal £325,000 nil rate band and will increase over the next 4 years to £175,000 in 2020. This additional relief is however restricted if your assets exceed £2 million. The rules are fairly complicated but we can review your personal circumstances to ensure that you take advantage of all the relief that you are entitled to.

What About Downsizing to A Smaller Property?

The new inheritance tax relief for passing on the family home is protected even when you downsize to a smaller property.

For example, if a married couple currently live in a large house worth £500,000 and downsize to a flat worth £250,000 they could give away some of the proceeds during their lifetime and yet still benefit from inheritance tax relief based on the higher valued property. They could even sell up completely and move into a rental property and still get the inheritance tax relief!

For further information, please see our article on downsizing, which was prepared by Yogesh Patel.

Consider Making Regular Gifts Out of Surplus Income

Whilst on the subject of inheritance tax planning why not consider setting up a standing order to family members? Such regular gifts can be outside of the scope of inheritance tax provided they are made out of surplus income and not out of capital. It would be necessary to demonstrate that you are left with sufficient income after tax and living expenses to maintain your normal lifestyle. Unlike the £3,000 annual inheritance tax allowance there is no monetary limit for regular gifts out of income, provided the conditions are satisfied.

Again, we can review your personal circumstances to see if you are able to take advantage of this tax relief.

MAKING TAX DIGITAL FOR LANDLORDS

HMRC through the Making Tax Digital (MTD) initiative, are transforming the tax compliance system affecting the self-employed, partnerships and landlords. The goal is to make tax administration more efficient and increase the transparency of information transfer. This will also have an impact on landlords.

At present landlords are keeping their accounting records in numerous ways including paper records, spreadsheets and accounting software which are then used to prepare an end of year tax return. However, the government's plan is to migrate the current tax system to a fully digitised online tax system which will:

- Require landlords to maintain their records digitally through a software or apps
- Report summary information quarterly to HMRC
- Provide an end of year declaration to HMRC confirming that everything is complete and correct following any adjustments such as dis-allowable expenses

These changes will not come into effect until 6 April 2019, there are various things that landlords should start considering. To find out more please see our recently published article

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COMPLIANCE WITH THE TRUST REGISTRATION SERVICE

What is the Trust Registration Service (TRS)?

Following the introduction of the new AML regulations in 2017, trusts that are liable to pay UK taxes are required to register with the new HMRC TRS.

Trusts have to provide details of original trust assets and trust's beneficial owners. These are broadly settlors and beneficiaries of the trust; together with anyone who has control over the assets of the trust.

What is the deadline?

Registrations for a trust with any tax liability in the tax year 2016/17 that have previously filed a self-assessment Tax Return is 31st January 2018. No penalties will be charged for late registrations for this tax year if they are completed on or before 5th March 2018.

Trusts registering for self-assessment for the first time in 2016/17 will have needed to register earlier, by 5th January 2018, to have met their self-assessment regulations.

HMRC may penalise for late registration or failure to register; but have not yet indicated how.

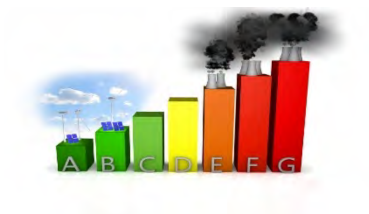
Please contact us if you have any queries

NO INDEXATION OF COMPANY GAINS AFTER DECEMBER 2017

Indexation allowance was introduced in the 1970s to provide relief from paying tax on inflationary gains based on increases in RPI. The relief was abolished in 1998 for individuals and trusts, and replaced with taper relief. However, it was retained for companies. The Autumn Budget announced that indexation for corporation tax would cease for disposals from January 2018 onwards, although indexation up to December 2017 would be retained.

Although the change will apply to all chargeable assets owned by companies, it will have a significant impact on property investment companies where indexation allowance acted as a shelter from inflationary gains.

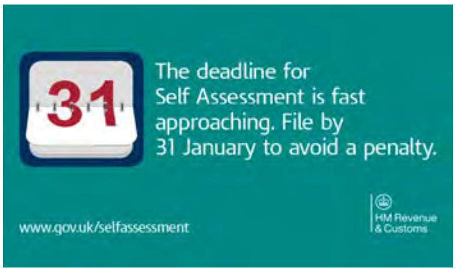
TAX RELIEF FOR ENERGY SAVING TECHNOLOGY



For a number of years there has been a generous 100% tax break for businesses that install energy saving technology in their premises. This is in addition to the £200,000 annual investment allowance for plant and machinery.

The technology that qualifies for this 100% tax break includes energy efficient boilers and energy saving lighting systems. This is set out in the government's energy-saving technology list. The list is updated each year. It was announced in the Autumn Budget that new technologies were being added but also certain items such as Biomass fired warm air heaters would no longer qualify from 1 April 2018.

Note also that where the expenditure has the effect of creating or increasing a loss for corporation tax purposes, the company can obtain a repayable first year tax credit. This credit, based on the amount of the loss attributable to the energy-saving technology spend, reduces to 2/3 of the corporation tax rate from 1 April 2018. Thus, the relief reduces from 19% to just 12.67% from 1 April 2018.



GOVERNMENT PROPOSES REPLACING SELF ASSESSMENT PENALTIES WITH NEW POINTS-BASED SYSTEM

The £100 penalty regime for filing a late tax return could be scrapped and replaced with a new 'driving licence-style' points system, HMRC has revealed.

Under the current system, taxpayers who fail to submit their tax return by the 31 January deadline are liable to an instant £100 fine, with further penalties applying for prolonged delays.

Under new plans being considered by the tax authority, taxpayers who miss the self-assessment filing deadline could receive points instead of an immediate fine. Only those taxpayers accruing too many points would then be penalised. Individuals would also see points wiped from their record after a set period of time.

It is thought that around 840,000 taxpayers missed the filing deadline in the last tax year.

The new 'holistic' approach is intended to focus on taxpayers who persistently break the rules rather than those who make genuine errors of judgement.

TAX DIARY OF MAIN EVENTS FOR JANUARY/FEBRUARY 2018

- 1 January – Corporation Tax for the year to 31 March 2017 (unless quarterly payments apply).
- 19 January – PAYE & NIC deductions, and CIS return and tax, for month to 5 January 2018 (due 22 January if you pay electronically).
- 31 January – Deadline for self-assessment tax returns 2016/17 if filed online. Also, due date for 2016/17 balancing payment and 50% payment on account of 2017/18 tax.
- 1 February – Corporation tax payment for the year to 30 April 2017 (unless quarterly instalments apply).
- 19 February – PAYE & NIC deductions, and CIS return and tax, for month to 5 February 2018 (due 22 February if you pay electronically).

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