

Monthly Update | December 2018

Welcome to our monthly tax newsletter designed to keep you informed of the latest tax issues. We hope you enjoy reading the newsletter; remember, we are here to help you so please contact us if you need further information on any of the topics covered.

Best wishes

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Christmas is the time for giving

Those thinking about making gifts at Christmas should take advantage of the various inheritance tax (IHT) exemptions and reliefs available to them. Note that certain gifts can also have capital gains tax (CGT) implications.



The IHT Annual Exemption - use it or lose it!

Although not particularly generous at £3,000 per donor per annum if this annual IHT exemption is not used by 5 April it is lost, although it is possible to carry the allowance forward one year if unused. This means that if the annual allowance for 2017/18 was not used an individual may make gifts of up to £6,000 in 2018/19.

Where the gifts to individuals exceed the annual exemption there may still be no inheritance tax to pay if they survive for 7 years following the gift or the gift falls within the £325,000 nil rate band.

Gifts out of income are not taken into account for IHT

A more generous inheritance tax exemption applies where the donor can prove that he or she is not transferring capital but is making gifts out of their income. There are detailed conditions for this exemption to apply requiring records to be kept of income and expenditure in order to prove that there is sufficient surplus income each year to make regular gifts to the beneficiaries. We can assist you in keeping the necessary records to satisfy HMRC.

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Certain gifts can have Capital Gains Tax consequences

Although there will be no CGT on gifts of cash there may be CGT to pay where the gift comprises shares or other assets. This is because the transaction will generally be deemed to take place at market value between connected persons even though no money changes hands.

The amount of the gain would normally be determined by comparing the market value with the original cost of the asset gifted. Where the amount of this gain is within the annual CGT allowance (currently £11,700) then there would be no CGT payable.

Where the gift comprises shares in a trading company or other business assets it may be possible for donor and recipient to sign an election to hold over the gain so that no CGT is payable by the donor at the time of the gift. The effect of such an election is that the recipient of the asset will take over the donor's original cost for subsequent disposal. Please get in touch with us if you are considering making gifts of shares or other assets so that we can advise you fully of all the tax implications.

Not all shares qualify for CGT Entrepreneurs' Relief now

As the result of changes announced in the Autumn Budget, and now incorporated into the latest Finance Bill, not all ordinary shares necessarily qualify for the 10% CGT entrepreneurs' relief rate on disposal.



As mentioned in last month's Budget newsletter the definition of a personal company was tightened up so that from 29 October the shareholder must have entitlement to at least 5% of the company's ordinary share capital, voting rights, profits available for distribution, and assets available on the winding up of the company.

This change means that certain "alphabet" and other shares with limited rights may no longer qualify for CGT entrepreneurs' relief when disposed of. As a consequence of this change we may need to review the rights attaching to the shares that your company has issued and make changes to ensure that the shares qualify

Gifts of up to £50 to employees

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

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

Conditions for the exemption to apply

The amount of repayable R&D tax credit for Small and Medium Sized Enterprises (SMEs) will again be restricted by the amount of the claimant company's PAYE and NIC liability from April 2020.

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

This exemption will generally apply to small gifts to staff at Christmas, on their birthday, or other occasions and includes gifts of food, wine, or store vouchers.

Note that where the employer is a "close" company and the benefit is provided to an individual who is a director or other office holder of the company the exemption is capped at a total cost of £300 in the tax year.

Please feel free to contact us if you are considering taking advantage of this exemption.

Gifts to charity

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



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

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

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

Collecting unpaid tax for 2017/18 through your PAYE coding

Under certain circumstances it is possible to arrange the collection of unpaid tax through your PAYE coding rather than making a balancing payment on 31 January. This will depend upon the amount outstanding and the amount of income taxable under PAYE.

There is a further condition that the return is submitted to HMRC online before 30 December 2018 in order that the 2017/18 tax be collected by amending the 2019/20 PAYE coding.

So please get your tax return information to us as soon as possible if you would like to take advantage of this facility.

Diary of Main Tax Events

December 2018 / January 2019

Date	What's Due
1 December	Corporation tax for year to 28/02/2018 unless quarterly instalments apply
19 December	PAYE & NIC deductions, and CIS return and tax, for month to 5/12/18 (due 22/12 if you pay electronically)
30 December	Deadline for filing 2017/18 tax return online in order to request that HMRC collect outstanding tax via the 2019/20 PAYE code
1 January	Corporation tax for year to 31/03/2018 unless quarterly instalments apply
19 January	PAYE & NIC deductions, and CIS return and tax, for month to 5/01/19 (due 22/01 if you pay electronically)
31 January	Deadline for filing 2017/18 self-assessment tax return online and paying your outstanding tax for 2017/18.