

Welcome to the April monthly tax newsletter. These newsletters are 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.

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## NO MAJOR TAX CHANGES IN CHANCELLOR'S SPRING STATEMENT

As announced last year, the Chancellor's Budget will in future take place in the Autumn each year as opposed to the Spring. There was however a Statement by the Chancellor on 13 March, but he made little mention of tax changes, instead choosing to focus on the state of the economy and stating that there is "light at the end of the tunnel". This contrasts with other recent Chancellors such as Gordon Brown and George Osborne who used both the Spring Budget and Autumn Statement to make announcements of tax changes.

### New Consultations

The Chancellor did however announce a number of tax consultations into possible future changes. One of the consultations concerns possible changes to the VAT registration threshold as it is concerned that some businesses deliberately operate below the VAT threshold (currently £85,000) as that adds 20% to the price of the goods and services. One suggestion is that businesses could be allowed to exceed the threshold by up to 50% for one year without the need to register for VAT. In another consultation HMRC is seeking views on how they can engage with online platforms, such as eBay and Uber, to promote tax compliance among its users.

## CASH AND DIGITAL PAYMENTS IN THE NEW ECONOMY

One of the announcements in the Spring Statement was the possible demise of the 1p and 2p coins and the £50 note, but for different reasons. It seems that more and more of us are paying for small transactions such as our morning coffee by using contactless payments.

Those who do pay in cash and where the cost is say £2.99 we put the penny change in the charity pot and many are thrown away! The £50 note has been linked to money laundering and other illegal cash-based payments.

The increase in contactless transactions and consequent reduction in the number of small coins in circulation will have a significant impact on the charity sector as many are reliant on peoples' small change being donated outside supermarkets and stations.

The consultation on the future of cash in the economy also considers the role of cash in tax evasion and illegal activities. The vast majority of traders and businesses accepting payments in cash will do so honestly. However, in some cases, the anonymous and untraceable nature of cash transactions is perceived to facilitate tax evasion, hidden economy activity, or money laundering. This harms the honest majority of businesses who find it harder to compete, and means less money goes towards our vital public services.

HMRC are aware that payments in cash can be a problem for tax compliance. In some cases, this is because taxpayers find it difficult to keep accurate records of all their transactions. HMRC have identified that cash is used by a small minority of people to hide or disguise their taxable income by not reporting, or under-reporting, what they owe.

The consultation paper suggests that the increasing use of digital payments and reduction in the use of cash could have a positive impact on increasing tax compliance and decreasing money laundering. However, the increase in digital payments may only have a limited impact, if the dishonest minority continue to use cash to hide or suppress their income. Could the next step be to make it mandatory to pay your window cleaner or gardener electronically? Not yet...

## CHARITIES GIFT AID SMALL DONATIONS SCHEME

Whilst on the subject of the reduction in cash transactions, we take the opportunity to remind you of the Gift Aid Small Donations Scheme (GASDC). Under this scheme a charity or community amateur sports club (CASC) can claim top-up payments on small donations up to £20.

From 6 April 2017 charities have also been able to claim tax back on donations made using contactless technology, such as a contactless credit or debit card.

Before 6 April 2017, charities could only claim top-up payments on small cash donations. Cash donations can be in coins or notes that have been collected and banked in the UK. The charity does not need to know the identity of the donors or collect Gift Aid declarations.

GASDCS claims are worked out in the same way as Gift Aid. If the basic rate of Income Tax is 20%, the charity can claim a GASDCS top-up payment of £2,000 on up to £8,000 worth of small donations. This is limited to 10 times the amount that the charity receives in Gift Aid donations that tax year.

## SCOTTISH INCOME TAX RATES DUE TO RISE FROM 6 APRIL 2018

The Scotland Act 2016 provides the Scottish Parliament with the power to set all income tax rates and bands that will apply to Scottish taxpayers' non-savings, non-dividend (NSND) income for tax year 2018/19.

From 6 April 2018 there will be significant discrepancies between the Scottish rates of income tax and the rates paid by taxpayers in the rest of England, Wales and Northern Ireland. Will this result in some taxpayers moving south or supplying their services via limited companies to avoid this increase?

From 2018/19 the Scottish higher income tax rate will be 41% on income between £43,430 and £150,000 where the top rate is 46%. Note that under the Scottish system there is a 19% starting band on the first £2,000 of taxable income and an intermediate rate of 21% for income between £24,000 and £43,430. The 20% rate applies to income between £13,850 and £24,000 (taxable income £2,001 to £12,150).

If you employ Scottish taxpayers they have a special S PAYE code so that payroll software collects the tax correctly.

## TAX EFFICIENT EXTRACTION OF PROFIT FROM COMPANIES FOR 2018/19

The new tax year means that many directors of family companies will be considering the most tax efficient method of paying themselves.

For many years accountants and tax advisors have suggested that director/shareholders should extract profit by paying themselves a low salary with the remainder of their income being extracted in the form of dividends.

Although dividends are not deductible in arriving at the company's taxable profits, they do not normally attract National Insurance Contributions (NICs). The starting point of NICs will rise to £162 a week from 6 April 2018. This is now significantly lower than the £11,850 personal income tax allowance. A salary just below £162 a week, £8,424 a year would mean no NIC would be due but would be sufficient to claim as a qualifying year for State Pension purposes (if above £6,032 lower earnings limit).

Remember that employers other than those where the director is the only employee are entitled to a £3,000 employment allowance that can be set against employer's NICs. If this has not been utilised against NICs on staff wages then consider increasing the directors' salaries up to £11,850, as the additional salary would save corporation tax at 19% on the £3,426 extra salary which equals £651, whereas the employees NIC would be £411.

As far as the level of dividends is concerned, the rate of tax changes from 7.5% to 32.5% at £46,350 so ideally the dividends should not exceed £34,500 if a salary of £11,850 is paid. The first £2,000 would be taxed at 0% with £32,500 being taxed at 7.5%. Don't forget that this tax will then be due on 31 January 2020.

Contact us to discuss other ways in which you can extract profits from your family company tax efficiently.

## DIARY OF MAIN TAX EVENTS

DATE	WHAT'S DUE
1 <sup>st</sup> Apr	Corporation tax for year to 30/06/17. <i>(unless quarterly payments apply)</i>
5 <sup>th</sup> Apr	End of 2017/18 tax year. 2018/19 tax year starts 06/04/18.
19 <sup>th</sup> Apr	PAYE & NIC deductions, and CIS return and tax, for month to 05/04/18. <i>(due 22/04/18 if you pay electronically)</i>
1 <sup>st</sup> May	Corporation tax for year to 31/07/17. <i>(unless quarterly payments apply)</i>
19 <sup>th</sup> May	PAYE & NIC deductions, and CIS return and tax, for month to 05/05/18. <i>(due 22/05/18 if you pay electronically)</i>

### FURTHER INFORMATION OR ADVICE

If you would like further information or advice about any of the issues raised in this newsletter or any other tax-related matter then **Steve Bird** would be delighted to hear from you.

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