eNews
WINTER 2018

Chartered Accountants & Registered Auditors
Clifford Fry & Co.

TAX

Avoiding tax pitfalls for new and working parents

It can be hard for new parents to keep track of the financial implications of having a baby. There are some issues, however, it can really pay to remember.

Get the most from your tax credits

New parents may be missing out on an average of £495 a year in tax credits because they are reporting their income incorrectly, HMRC has warned.

If you receive statutory maternity, paternity, shared parental or adoption pay, you can deduct up to £100 a week when reporting earnings for tax credits. If your payments come to less than £100 a week, you should deduct for the amount you have received.

It is too late to claim for the current year, but new claimants should be aware of the pitfalls for the next tax year.

Always claim child benefit

Child benefit is worth nearly £1,800 a year for a family with two children. However, the so-called 'high income' tax charge claws the full amount back if just one of the parents earns at least £60,000 a year.

> *You should still register for child benefit even when the full amount is clawed back, otherwise you will lose some valuable benefits.*

If this clawback applies to you, you can opt out of receiving child benefit to avoid having to register for self-assessment and filling in a tax return. However, you should still register for child benefit even when the full amount is clawed back, otherwise you will lose some valuable benefits.

Filling in the child benefit claim form entitles you to national insurance credits, which provide state pension contributions for a stay-at-home parent until a child is 12. This gives a potential 12 years towards the 35 years of national insurance contributions required to qualify for a full state pension.

Valuable benefits such as these aren't always easy to find or understand. If you want to ensure you are making the most of every opportunity, please get in touch.

TAX

HMRC ups the cost for late payments

The interest rate for late tax payment to HMRC increased from 21 August, following the recent increase in base rate to 0.75%.

The rate increased from 3% to 3.25%, the highest late payment rate since 2009. The 3.25% rate is set at base rate plus 2.5% and applies to almost all taxes and duties. The exception is quarterly instalment payments of corporation tax – the rate for these rose from 1.5% to 1.75% from 13 August.

However, the repayment rate – used to calculate interest on tax refunds from HMRC – remains at 0.50%, a level set in 2009. This may seem unfair, but the repayment rate is set at base rate minus 1.00%, so it should be a negative rate in theory. The 0.50% rate is a minimal rate, so it probably will not change until the base rate goes up by at least another 1.00%.

On a brighter note, HMRC has announced that its real time information (RTI) reporting penalty concession will continue until 5 April 2019. The concession provides an extra three days to report payroll before the penalty regime kicks in. HMRC does warn, however, that employers who persistently file within the three-day grace period may be contacted or considered for a penalty.

Of course, the best solution is always to avoid late filings, so if you would like help preparing yours please let us know.

Credit: iStock/ImageGap

Clifford Fry & Co
Salisbury: (01722) 743114
Andover: (01264) 326338
Email: enquiries@cliffordfryandco.com
Web: www.cliffordfryandco.com

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Closing loopholes around write-offs of director loans

A recent First-Tier Tribunal decision has drawn attention to the tax treatment of writing off director loans.

Directors of owner-managed companies may overdraw their loan account as a result of regularly withdrawing funds from their company to cover their personal living expenses. There are sometimes good reasons for simply waiving or releasing the debt, even though that is not necessarily the most tax-efficient approach to the issue.

Why write off?

Where a director who is also a shareholder has an outstanding loan or current account with a close company, the company will have to pay 32.5% in tax if the loan is outstanding for more than nine months after the end of the company's accounting period in which the loan was made.

Where the loan has been written-off, a director is treated as receiving a dividend equal to the amount written-off and dividend tax is paid at the marginal rate – up to 38.1%, depending on income. However, it is also treated as earnings for national insurance contributions, so the director pays 12% and/or 2%, with another 13.8% payable by the company. Further, despite the earnings treatment, the company does not receive corporation tax relief for the write-off.

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What not to do

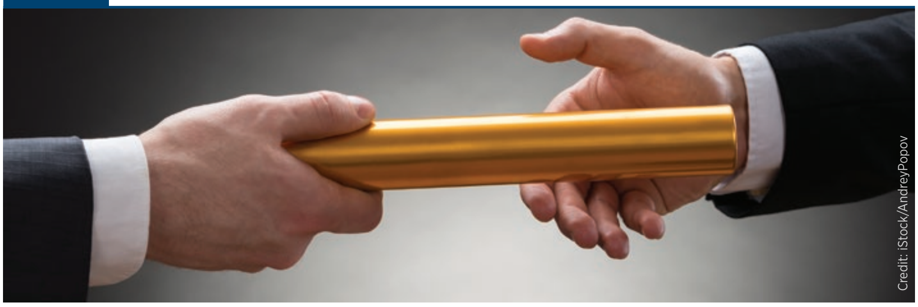
The First-Tier Tribunal decision involved four companies that used a loan waiver scheme. In a bid to reduce their tax bill:

- The companies voted to issue the directors with performance bonuses, which were equivalent to the amount of overdrawn loan accounts.
- The bonuses were paid as a formal release of the overdrawn loan accounts.

The Tribunal decided that, because of the close links between bonuses and write-offs, the directors' loans had been repaid, rather than released, because the companies effectively got their money back. So, the write-offs should have been treated as employment income rather than dividend income and the higher rates of income tax applied.

Please contact us if you would like advice on how to handle your director loans.

BUSINESS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Intestacy and business continuity

Over 30 million people in the UK don't have wills, but if you die intestate – without having made a will – there are strict rules about how it must be passed on.

Under intestacy law in England and Wales, your entire estate passes to your spouse or civil partner, if you have one and you don't have any children. In Northern Ireland and Scotland, if you don't have children, part of your estate may go to parents and siblings. Unmarried partners have no rights under intestacy, so consider making a will if you have not married your significant other.

If you have children, including from previous relationships, the rules vary across the UK. Generally, your spouse/partner gets a lump sum, some chattels and a share of any remaining estate. The rest of the estate is generally split between any children.

If you die without a spouse/partner or children, your estate is passed to surviving relatives. If you have no surviving family, your estate will pass to the Crown.

What about your business?

If you own an interest in a business, dying intestate can cause serious issues.

If you are a sole trader, your business will automatically cease to exist when you die. But if you are in a partnership, or own shares in a limited company, you should ensure your partnership agreement or company articles set out clear guidelines for succession.

Without such provisions, your death could cause a partnership to dissolve or leave a company without a director and unable to appoint one. Your heirs may also be unable, or unwilling, to take part in the business they inherit.

Let us know if you would like to discuss your options.

EMPLOYMENT

Electricity becomes a fuel

Electricity has been added to the car advisory fuel rates for the first time.

From 1 September, you can reimburse staff for business travel in purely electric company cars at the rate of 4p per mile. If you can demonstrate your electricity costs per mile are more than this, you can use a higher rate. However, if you fail to demonstrate this, any excess will be treated as taxable profit and earnings for class 1 national insurance contributions.

Plug-in hybrid and hybrid cars continue to be treated as either petrol or diesel models for mileage reimbursement purposes.

The next review is 1 December, although current rates can be used for another month after then.

The rates are now as follows:

Engine size	Petrol	Diesel	LPG
1400cc or less	12p	10p	7p
1401cc to 1600cc	15p	10p	9p
1601cc to 2000cc	15p	12p	9p
Over 2000cc	22p	13p	13p