Class 2 National Insurance Contributions to remain

Self-employed individuals have been bracing themselves for the potential rise in National Insurance Contributions (NICs) which would have hit some individuals following the proposed abolition of Class 2 NICs in April 2019, however in a U-turn announced at the start of September the abolition will be shelved.

The abolition of Class 2 NICs was never intended to be a cut in NICs for the self-employed, but more a consolidation, alongside the reform of the Class 4 NIC regime, to deliver identical benefits for a reduced administrative burden. However some self-employed with low earnings would have found saving towards their state pension costing them up to 400% more had the proposed alternative gone ahead.

The current method of paying NIC's through the self-assessment (SA) system will remain in place.

Top tip:

We would be happy to obtain a projection of your current entitlement to state pension, please just ask.

Employment Allowance - £3,000 of NIC deductions for a business

If your business pays employees over the threshold for employers Class 1 National Insurance, that's £156 per week in the current year, then each time the payroll is run a credit is given called Employment Allowance which reduces the amount of employers NI the business needs to pay down to nil, until the maximum of £3,000 is reached or the tax year ends.

This allowance is only available to businesses where there is an employee paid over £156 per week in addition to the director of the company. The allowance is not available to sole directors.

Example

Jenny is a company director of a small business and takes a wage of £23,000 per annum. Because she pays herself over the NI threshold she will pay £1,869 in NI herself and her business will pay employers NI of £2,149.

No Employment Allowance is due as Jenny is the sole director and employee of the company

However Jenny's partner Alex has come to work for her and receives a wage of £9,000. Because Alex is paid over the threshold the Employment Allowance is now due. Alex will still pay £69 in NI however the employers NI on the £9,000 wage will no longer be due as it will be cancelled by the Employment Allowance as will the £2,149 which is due on Jenny's wage.

If Alex has no other income the £9,000 wage will be tax free too, as it is below the personal tax allowance.

Top tip:

Make certain you are making the best use of your business's Employment Allowance. Ask us if you are considering taking on a member of staff or employing a family member as we can confirm the most tax efficient method of employing staff.

We are here to help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

WBD
Marlbridge House, Enterprise Way,
Edenbridge, Kent TN8 6HF

Andy Branson
Tel: 01732 865965
Email: andy@wbdaccountants.com

design - voltacreative.uk

WBD
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Are you ready for your Digital Tax start date?

From April 2019 all businesses with a turnover above the VAT threshold will need to send their VAT returns to HM Revenue and Customs (HMRC) in digital format via HMRC's own digital information exchange system called an Application Programme Interface (API) platform. This is the first stage in HMRC's Making Tax Digital (MTD) initiative.

If you are already VAT registered or if your turnover is close to the VAT threshold (which will be £85,000 in April 2019) then being ready well in advance of the MTD start date won't save you tax but it will help to save the headache and potential disruption to your business recording systems, not to mention potential penalties.

The first businesses to start filing on HMRC's API platform will be those with a VAT quarter which runs to June 2019 i.e. those quarters starting on 1st April 2019.

What are businesses required to do?

1. The VAT records of a business must be kept in a digital format,
2. The business must provide their information and VAT returns to HMRC using HMRC's API platform.
3. The business must be able to receive information from the HMRC API platform.

The old online filing system for VAT returns will remain open, but will only be available for use by those businesses voluntarily registered for VAT (i.e. those who complete a VAT return but whose turnover is less than the VAT threshold). These businesses are not, as yet, required to keep digital records.

Top tip:

If you are a VAT registered company or if your turnover is close to the VAT threshold, we will be happy to help you understand the changes, to make a plan to transition to the new system and to support your business through these changes.

Tax Free Investments For Children

Junior Stocks and Shares ISAs are tax-free investments with a current **pay-in limit of £4,260 a year.** A Junior ISA can be opened and managed by a parent or guardian but others (for example grandparents) are able to contribute. Fund managers tend to levy an annual fee and management fees or share dealing fees will be due.

The account can be managed by the child when they turn 16 but with funds locked away until they are 18.

Junior Self-invested Personal Pensions (SIPPs) are available from birth. Up to £3,600 a year can be saved but with the Government automatically topping up payments with **20% tax relief,** only a £2,880 investment is necessary **to hit the maximum** contribution.

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A downside to a Junior SIPP is that under current pension rules this pot of money would not be available until the child becomes 55 years of age and, of course, the child may have a greater need to pay off student debt or have a deposit for a house way before they reach the age they can access the funds.

A Bare Trust is a very simple form of trust where a gift is made by a person or persons (the Trustee) and is held for a named person (the Beneficiary). For example, grandparents may open and manage a bare trust for a grandchild.

Until the child is 18 years old (or 16 years old in Scotland) the trustee can manage the investments and money in the bare trust and can even withdraw money, provided it is to benefit the beneficiary.

There are no limits on the contributions to the trust however, just like the Junior ISAs, the beneficiary does become entitled to the whole investment at the age of 18 (or 16 in Scotland).

Money Gifted By Parents does have special tax consequences. If a parent has invested money on behalf of a child and that investment achieves more than £100 in income in a year, that income is taxed as if it were the parent's income.

This does not apply to Junior ISAs or Junior SIPP's but would apply to a Bare Trust. If the origin of the investment is anyone else, for example a grandparent, then the income from the investment is taxed as the child's income and utilises their own personal tax allowance and capital gains allowance.

Top tips:

Remember your Child's Trust Fund account!

All children born between September 2002 and 2 January 2011 received between £50 - £1,000 **FREE** from the Government to save in a Child Trust Fund. It is estimated that around 1 million Child Trust Fund accounts are "lost". However, we can help track down a missing account for you. Just let us know if you would like help.

Making Provision for private education for your children or grandchildren

There may be ways to ensure the provision of private education for children and grandchildren is contributed to in a tax efficient manner. This may be through a Bare Trust as discussed above, as the money withdrawn is for the benefit of the child who is the beneficiary. In all cases care must be taken. Please ask us for help if you would like to explore the possibilities.

Once you have discussed your investment requirements with your financial advisor ask us to review the tax implications for all involved to ensure you have the best possible tax savings for your whole family.

Are you getting all of your pension tax relief?

By now the majority of employed individuals in the UK will have been enrolled in a workplace pension, however how that pension payment is taken from the individuals wage could mean that not enough tax relief is being given by the Tax Man!

There are 2 ways of gaining tax relief on an employee contribution to a pension scheme and these are more than confusing in their name:

Relief at source:
this is where the contribution is made net of tax.

Net Pay:
this is where the contribution is made gross.

The tax legislation dictates which method a pension scheme uses and this determines how the payroll deducts the contribution from the individual.

In a trust based pension scheme the method used is the Net Pay method. This works by deducting the pension contribution from the gross salary. The gross salary is therefore reduced and the tax is then calculated. This method gives tax relief to all taxpayers at their correct rate of tax but does not save national insurance (NI), as NI is calculated on the gross pay. But of course, if the individual is not a taxpayer there will be no tax relief given.

In a Relief at Source pension the tax relief is only given at 20% which means an individual paying tax at the Scottish rate of 21%, or any taxpayer paying at the higher or additional rates have to take further action to obtain the tax relief they are due.

This type of pension scheme is usually one of those specifically set up for the new workplace pension rules, for example NEST, where the pension payment is taken AFTER tax and NI have been calculated. For example, if an individual's salary for the month is £1,000 and they make a 1% contribution only £8 will be taken from their salary and paid to the pension and a further £2 is then reclaimed from HMRC on the members behalf. This happens irrespective of whether the taxpayer pays tax or not.

In Scotland a taxpayer paying at the 19% rate of tax will continue to receive a 20% top up from HMRC with no action taken to recover the 1% shortfall. But for all other individuals paying over 20% in tax the additional tax relief has to be claimed from HMRC.

Top tip:

In some cases the reclaim can be a substantial amount and if it remains unclaimed after 4 years HMRC is under no obligation to repay this.

We can review the position when completing your self-assessment tax return or, if you are not required to complete a tax return, please discuss your pension contributions with us as we can help reclaim the relief you are due to receive.