



DAVID PATTINSON CHARTERED ACCOUNTANTS

December 2019



QUARTERLY NEWSLETTER

Xmas and New Year Holidays

My office will close at midday on Monday, 23 December and re-open at 9:00 a.m. on Thursday 2 January.

Budget

There was supposed to be a budget last month, to set the tax rates and allowances for the tax year 2020/21, but it was postponed when the general election was called. The new government will not have time to arrange one before the end of this month, so it will be some time in the new year, possibly moving back to the traditional time in March.

Corporation Tax/Dividends

A few years ago, Corporation Tax was reduced from 20% to 19%, as the first step in a plan to eventually reduce it to 17%. The Conservative Party recently announced that it will not proceed with that further cut if re-elected, as the money will be needed for additional spending commitments. The Labour Party has said that Corporation Tax will be increased if it forms the new government.

The corollary of the Corporation Tax cut was an increase in tax on dividends, so that owner/managers of small companies would not benefit. That extra dividend tax has already been introduced, so represents an increase in the overall tax burden of small companies and their owners, now that the Corporation Tax cut will not happen.

Amazon Prime Scam

There is a new telephone scam, targeting people randomly, which is a recorded message saying that your Amazon Prime account will be automatically renewed with a payment of £39.99 taken from your bank account. It then gives an option to press 1 to speak to an account manager if you think that is not correct, or may have been authorised fraudulently. The fraudsters know that most of the people receiving their call will not have an Amazon Prime account, so may panic and think that they need to act to stop the payment. I have not heard of anyone who has responded, so I have no experience of what the actual fraud is, but I have read that the victim will be connected to a premium rate number and asked for bank account information.

Changes to Lettings Reliefs

Everyone knows that their own home, or principal private residence (PPR) as it is called in tax law, is exempt from Capital Gains Tax (CGT). Conversely, a property which is let out is liable to CGT. If a property has been used as the PPR for part of the period of ownership and let out for the rest, then the gain is time-apportioned and only the part relating to the rental period is liable to CGT.

During one of the property slumps of the last century, the government recognised that people were sometimes renting out a former PPR not for commercial gain, but just because they were unable to sell it when they needed to move to another area. Some additional reliefs were therefore introduced, which are currently as follows:

1. The final 18 months of ownership always counts as PPR, even if the property was actually being rented out at that time.
2. Lettings Relief can exempt up to £40,000 of the gain on the remaining rental period. This relief can be claimed by both members of a married couple, so can be up to £80,000 for them.

For sales after April 2020, the final period exemption will be reduced to 9 months and the Lettings Relief will be restricted to cases where the tenant was sharing the property with the owner, rather than occupying it exclusively (in effect that means that very few people will be able to claim it).

Anyone who is renting out a former residence may, therefore, wish to consider selling before those changes come into effect. If the property was occupied as the PPR of a married couple, but is owned by only one of them, there may also be a tax saving in transferring it into joint names before sale.

Business Bank Accounts

I have always encouraged my clients to have separate business and private bank accounts, but some still make a lot of private payments from their business accounts. Over the next few years, Making Tax Digital (MTD) is going to be extended to all but the smallest businesses and will require records to be kept using a computer spreadsheet or accounting software. The only way to check that those records are accurate is to enter everything on the bank account and then reconcile them to the balance on the bank statement. Private transactions will just create a lot of extra work entering items which have no effect on VAT and Income Tax liabilities.