

A.W.G

WARREN  
& Son.



NEWSLETTER

*March 2019*



## *Spring Statement and Brexit*

I have deliberately delayed the issue of this newsletter as I thought that the Chancellor's Spring statement on 13th would require amplification. However there was very little in the statement which had any current relevance to small businesses or personal tax. There was just one point of interest being that he stated that MTD for annual accounts and tax returns was being delayed until at least 2021. In addition I was hopeful that by now we would have some idea of the future of Brexit. After the 'May'hem over the Commons votes on 12th, 13th and 14th we are not really that much further forward as a hard Brexit is still the default legally.

For those who are concerned about the implication for leaving the EU, the Government have a dedicated website at <https://www.gov.uk/business-uk-leaving-eu>

## *Making Tax Digital*

If you discount Brexit, the most important item affecting the majority of businesses is still Making Tax Digital (MTD) and the first VAT returns under the new MTD system will have to be submitted by 7th August, for those with a quarter ending on 31st June, or as late as 7th October for those with their first quarter ending on 31st August.

May I recap on our previous edicts on the subject? To summarise, and perhaps oversimplifying the new MTD procedures –

- if one already has a bookkeeping system on a computer you must either update the software to be compatible for MTD, or continue to use your existing system and purchase a bridging/link programme (we recommend VT software) which will be necessary to submit the VAT return to HMRC. If you are using an Excel spreadsheet you will just need to purchase the bridging/link package. In May HMRC will be disconnecting the software which you previously used.

- if one has previously kept manual records you must either purchase a dedicated bookkeeping package (we recommend VT transactions software), or use an excel spreadsheet and also purchase a bridging/link package (also available from VT). As always, if you have any problems please contact Martyn



## Welsh Income Tax

From 5th April we now have Welsh income tax. You haven't noticed, and you probably won't, because it's the same rate as we paid last year, and continues to be the same as England. However to be a little bit more technical, the basic higher and additional rates of tax have all reduced by 10%. Then the Welsh Assembly has added 10% to each of the three rates of tax, so the rates stay the same. This exercise has obviously given jobs to some people. Incidentally you are liable to Welsh tax if your only/main residence is in Wales or if you spend more days in Wales than either England, Scotland or Northern Ireland, separately.



## Employees

Some major changes take place on 5th April. Firstly pension auto-enrolment contributions increase from 3% to 5% for employees, and employer's contributions increase from 2% to 3%. Secondly Minimum wages also increase from that date –

Over 25	▶	£8.21
21 – 24	▶	£7.70
19 – 20	▶	£6.15
Under 19	▶	£4.35
Apprentices	▶	£3.90



Also Directors and employees can earn up to £715 per month without paying National Insurance contributions. This is increasing from £700 per month. Payslips for 'workers' including those paid at an hourly rate, must show the number of hours worked, and if more than one rate is paid then the hours at each rate must also be shown.

Other rates, published since the Autumn Statement –

	2019/20	2018/19
Single tier pension	▶ 168.60	▶ 164.35
Basic pension	▶ 129.20	▶ 125.95
Statutory sick pay	▶ 94.25	▶ 92.05
Redundancy (a week's pay)	▶ 525	▶ 508
Unfair dismissal (max)	▶ 86,444	▶ 83,682
Junior ISA limit	▶ 4,368	▶ 4,260

## Tax Traps

Controlling Directors have a considerable advantage over other employees and the self-employed in that they can determine their income for a tax year precisely, and in most cases for their spouse as well.

Their income would comprise a fixed salary, normally set just below the National insurance threshold, and then declare a dividend so that their total income stays within the basic rate tax band.

Conversely other employees and the self-employed can get caught in one of the many tax traps which include –



1. one of the largest is where one's personal tax allowance is withdrawn between incomes of £100,000 and over £125,000, and in that band the rate of tax is 60%.
2. From April 2019, as a result of the child benefit restriction, a parent with an income of £49,999 pays a maximum 20% income tax, but their marginal rate effect increases to 57.9% when their income exceeds £50,000.
3. Once someone earns more than £150,000 a year, their annual pension allowance is reduced, creating an effective tax rate of 67.5%

Other tax traps which have no direct bearing on personal incomes include -

4. A small business whose turnover increases by £1 from £84,999 to a VAT registerable level of £85,000. If that turnover was then constant, that £1 additional turnover would result in an additional VAT liability of £14,166 per annum.
5. Another excessive cost can be the surcharge when paying a tax liability 30 days after the due date. For being one day late the cost is 5% which when expressed as an interest rate, equals 1,800% !
6. The very worst tax trap relates to pensions and the higher cap on contributions. If any contribution is made in excess of this cap, even just £1, then the result could be an additional tax liability of £433k.



### *Spotlights*

This is a word used by HMRC to highlight tax avoidance schemes that they consider to be ineffective. Many of them have been recommended by firms of accountants but are then challenged by HMRC and in most cases the taxpayers have had significant arrears of tax to pay, going back several years. The one that has received the most publicity is called the 'disguised remuneration scheme'. The scheme, somewhat simplified, was supposed to work by an employer or contractor making a loan to the employee or subcontractor which was tax free. The loan was then never repaid. According to HMRC over 50,000 people have participated in this scheme, including many sportsmen, entertainers and other well known names. I sincerely hope that none of our clients has been persuaded to participate in this scheme, but if you have you must contact HMRC immediately in an endeavour to mitigate the liability.

To have a look at the more recent spotlight schemes visit -

**[www.gov.uk/government/collections/tax-avoidance-schemes-currently-in-the-spotlight](http://www.gov.uk/government/collections/tax-avoidance-schemes-currently-in-the-spotlight)**



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This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases, so please contact us for personal advice on your own affairs.

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**Martyn J. G. Warren**

*Chartered Accountant* - mw@awgw.co.uk

**Kandy Pitrola**

FCCA, FMAAT, ATT - kp@awgw.co.uk

**Simon Jeremy**

FCCA, BA (Hons) - sj@awgw.co.uk

**Nick Metallinos**

AFA - nm@awgw.co.uk

**Ken Rock**

kenrock@awgw.co.uk

**Lorraine Clutterbuck-Jones**

lcj@awgw.co.uk

**Gail Kurowski**

*Administration & Company Secretarial* - gail@awgw.co.uk

**Debbie Lawes**

debbie@awgw.co.uk

**Amrit L Bhardwaja**

*Consultant* Bsc, FCCA, PGCE, Dip IFR - ab@awgw.co.uk

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**A.W.G. WARREN & SON**  
CHARTERED ACCOUNTANTS

74 Wyndham Crescent, Canton, Cardiff, CF11 9EF

*Tel:* 029 20220162 / 029 20390914

*Fax:* 029 20340189

*Website:* [www.awgw.co.uk](http://www.awgw.co.uk)