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thomas**nockmartin**
CHARTERED ACCOUNTANTS

TAX NEWSLETTER

Welcome to our monthly newsletter. We hope you enjoy reading this newsletter and find it useful.

- Download our new App! Go to our website www.tnmca.com
- Ask us about management accounts
- Ask us about our virtual financial director service
- Are we being proactive enough for you?

January 2021

NEW YEAR RESOLUTIONS TO SAVE TAX

At this time of year we think about New Year's resolutions. It is also a good time to start planning your tax affairs before the end of the tax year on 5th April. An obvious tax planning point would be to maximise your ISA allowances for the 2020/21 tax year (currently £20,000 each). You might also want to consider increasing your pension savings before 5 April 2021 as the unused annual pension allowance is lost after three years.

For those looking to do some inheritance tax planning, it would be a good time to review (or make) your Will.

PENSION PLANNING

For most taxpayers the maximum pension contribution is £40,000 each tax year, although this depends on their earnings. This limit covers both contributions by the individual and by their employer.

Note that the unused allowance for a particular tax year may be carried forward for three years and can be added to the relief for the current, but then lapses if unused.

Hence the unused pension allowance for 2017/18 will lapse on 5 April 2021 if unused.

Note that there are rumours that pension tax relief may be restricted in the next Budget. Under the current rules, the net after tax cost of saving £4,000 in a personal pension for a higher rate taxpayer is £3,000. HMRC then add a further £1,000 to your contribution and there is a further £1,000 relief when your tax liability is calculated, thus the value of your pension pot would be £5,000, for a net cost of £3,000. Remember that pension fund investments can go down as well as up, but a 40% fall would be unlikely.

NEW VAT RULES FOR CONSTRUCTION SECTOR START ON 1 MARCH 2021

New VAT rules are finally due to come into effect this March which will impact on accounting for VAT for transactions in the construction sector. These new rules, which were originally scheduled to start back in October 2019, have already been delayed twice as there was a lack of awareness of the changes in the industry.

The new "reverse charge" system of VAT accounting will affect sub-contractors supplying their services to main contractors in the construction sector.
Under the new rules, supplies of standard or reduced-rated building services between VAT-registered businesses in the supply chain will not be invoiced in the normal way. Under the new reverse charge system, the sub-contractor will not show VAT on their invoice to the main contractor and will not account for output VAT.

This is intended to ensure that VAT is correctly accounted for on supplies by sub-contractors, some of whom were allegedly not paying over the VAT charged to HMRC.

The new reverse charge will apply to a wide range of services in the building trade, primarily those activities covered by the construction industry (CIS) payment rules. Note that normal VAT invoices will continue to be issued to domestic customers.

Please contact us if you are likely to be affected by these changes and we can work with you to ensure you are ready for the new system when it starts. If you are a sub-contractor using the VAT flat rate scheme, it may be beneficial to leave that scheme as you may be entitled to a VAT refund on your expenses from 1 March 2021.

£1 MILLION ANNUAL INVESTMENT ALLOWANCES EXTENDED

The Chancellor recently announced that the temporary increase in the Annual Investment Allowance (AIA) for expenditure on plant and machinery has been extended to 31 December 2021.

The tax relief was originally scheduled to revert to just £200,000 from 1 January 2021, but that will now

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be delayed by twelve months.

Remember that there is currently an additional 100% tax relief for the cost of buying a new car for the business where the CO_2 emissions of the car are no more than 50g per kilometre. That threshold reduces to 0g from April 2021.

ADVISORY FUEL RATE FOR COMPANY CARS

These are the suggested reimbursement rates for employees' private mileage using their company car from 1 December 2020. Where there has been a change the previous rate is shown in brackets.

Engine Size	Petrol	Diesel	LPG
1400cc or less	10p		7p
1600cc or less		8p	
1401cc to 2000cc	11p (12p)		8p
1601 to 2000cc		10p	
Over 2000cc	17p	12p	12p

Note that for hybrid cars you must use the petrol or diesel rate. You can continue to use the previous rates for up to 1 month from the date the new rates apply.

TIME TO REVIEW YOUR WILL?

Top of the to do list for many individuals is to make or update their will. Many think this is something to leave until later in life but it is important to get things in place once property is acquired or when children come along.

In the absence of a will there are statutory rules which dictate how your assets are distributed on death. Those statutory intestacy rules may not be tax efficient and you might to want to make specific provision in your Will for your unmarried partner or for the guardianship of your children.

PASSING ON THE FAMILY HOME

One recent change that should be taken into consideration when drafting your Will is the additional Inheritance Tax (IHT) nil rate band for passing on the family home to direct descendants on death. We can work with your solicitor to make sure your Will is tax efficient.

Now that the additional relief is fully phased in it provides an extra £175,000 on top of to the normal £325,000 nil rate band. Where the allowance is unused on the death of the first spouse, the unused allowance is available on the death of the surviving spouse, potentially allowing a married couple (or civil partners) to potentially pass on assets of up to £1 million without paying IHT.

This additional relief is, however, restricted if your assets exceed £2 million. The rules are fairly complicated but we can review your personal circumstances to ensure that you take advantage of all the relief that you are entitled to. This relief is even available when you downsize to a smaller property.

For example, if a married couple currently live In a large house worth £500,000 downsize to a flat worth £300,000, they could give away some of the proceeds during their lifetime and yet still benefit from inheritance tax relief based on the higher valued property. They could even sell up completely and move into a rental property or a care home and still get the inheritance tax relief!

DIARY OF MAIN TAX EVENTS

JANUARY 2021 / FEBRUARY 2021

Date	What's Due
1/01	Corporation tax payment for year to 31/3/20 (unless quarterly instalments apply)
19/01	PAYE & NIC deductions, and CIS return and tax, for month to 5/01/21 (due 22/01 if you pay electronically)
31/01	Deadline for Self-Assessment tax return for 2019/20 if filed online. Also the due date for 2019/20 balancing payment and 50% payment on account of 2020/21 tax. **Note that if this liability is no more than £30,000 you can agree with HMRC to spread over 12 months**
1/02	Corporation tax payment for year to 30/4/20 (unless quarterly instalments apply)
19/02	PAYE & NIC deductions, and CIS return and tax, for month to 5/02/21 (due 22/02 if you pay electronically)

Please contact a member of our team if you would like to discuss any of the issues raised.

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