

CONSIDER YOUR TAX POSITION FOR 2020/21

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The tax year 2019/20 is now underway. The changes to the allowances, tax bands and tax rates from 2018/19 to 2019/20 were as follows:

- The personal allowance is increasing from £11,850 to £12,500
- The dividend allowance is £2,000.
- The personal savings allowance will remain as £1,000 for basic rate taxpayers and £500 for higher rate taxpayers.
- The basic rate band will be increased from £34,500 to £37,500.
- The higher rate band will be £34,750.01 to £150,000.
- The additional rate band will remain at £150,001+.
- The income tax rates will remain as 20% for basic rate, 40% for higher rate and 45% for additional rate.
- The dividend tax rates will remain as 7.5% for basic rate, 32.5% for higher rate and 38.1% for additional rate.

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For those who trade through a limited company, your current remuneration package is likely to be a small NI level salary with the balance of your remuneration from your company being received via dividends.

The small level salary provides you with a qualifying year for state pension but is set at a level that there is no national insurance for the employee or employer. It also makes use of the majority of your personal allowance. The monthly salary figure for 2018/19 was £702 and this has now increased to £719 for 2019/20.

It is however still more tax efficient to receive a low-level salary and dividends from your company rather than paying the same total income via a salary. The lower salary saves the cost of the employers NI for the company, as well as employees NI and tax for the employee. The dividend tax rate of 7.5% in the basic rate band is much lower than the 20% tax rate for salary received above your personal allowance.



If you have a director's loan account with your company and the company owes you a reasonable amount throughout the course of the year, the company can pay you interest on the loan. This needs to be at a reasonable market interest rate.

As a basic rate taxpayer, you can receive £1,000 of interest and pay no tax on this; this is reduced to £500 if you are a higher rate taxpayer.

The interest charge in the company will also be a tax-deductible expense for corporation tax. The company will have to pay the interest to you net of 20% income tax, but this will be recovered when you complete your 2019/20 tax return. The company will also need to complete form CT61 and pay the tax deducted over to HMRC.

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For your company for the new financial year from 1 April 2020, the corporation tax rate has remained at 17%.

When investing in new capital equipment, companies, sole traders, and partnerships can all make use of the Annual Investment Allowance (AIA), the allowance is £1 million and is not available on the purchase of cars, vans are however covered. This enables full tax relief in the year of purchase to be received. Any additions over this amount and cars will be subject to Writing Down Allowances (WDA), receiving either 6% (special rate pool) or 18% (main pool) tax relief on the cost of the assets.

There is a new allowance of 2% for structures and buildings which applies to expenditure under physical construction works entered into on or after 29 October 2018.

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