OPASS BILLINGS
WILSON & HONEY LLP
NUMERIC HOUSE, 98 STATION ROAD, SIDCUP, KENT DA15 7BY
TELEPHONE 020-8300 2307 FACSIMILE 020-8300 4239
EMAIL opass@obwh.com
WEBSITE www.obwh.com

Tax Matters

November 2018 inside this issue...

Inheritance tax: is your estate covered?

With the value of homes continuing to increase over the past decade, and with the majority of housing wealth now being owned by older households, inheritance tax (IHT) continues to be an issue for many, despite the introduction of the residence nil-rate band (RNRB).

Recent figures have revealed that IHT receipts reached a record high last year, and there may be times when the nil-rate band and RNRB may not cover the full value of an individual's estate on death.

Some key IHT reliefs

IHT is generally payable at 40% on the proportion of a taxable estate which exceeds £325,000.

A number of important reliefs apply to IHT, not least of which is the nil-rate band, which applies a rate of 0% to the first £325,000 of a taxable estate. For married couples and civil partners, any percentage of the nil-rate band which remains unused after the death of a partner can be carried forward and added to the nil-rate band of the surviving partner.

An additional relief, the RNRB, is currently being phased in. This allows a family home to pass to direct descendants, such as children or grandchildren. Provisions also exist to cover situations where someone has downsized, or sold to raise capital, for example to cover care home fees.

The RNRB is being increased in a series of stages, as follows:

2018/19	£125,000
2019/20	£150,000
2020/21	£175,000

This means that by 2020, a couple will be able to pass on total assets worth £1 million (£325,000 plus £175,000).

There will be a tapered withdrawal of the RNRB for estates worth more than £2 million. This limit does not take business or agricultural reliefs into account.

Transfers of assets which are made between spouses are exempt from IHT – this applies to both lifetime transfers and transfers made on death.

Other forms of relief

Many smaller or regular lifetime gifts are exempt from IHT, whilst larger gifts may become exempt after seven years.

Gifts to charity have the potential to give an estate access to a lower rate of IHT on some assets, while unused funds in a private pension can pass directly to beneficiaries without being included in the chargeable estate.

The Chancellor has commissioned the Office of Tax Simplification (OTS) to review a range of aspects relating to IHT, and advise on ways in which the tax can be simplified.

We can offer assistance with all aspects of IHT and estate planning, so please get in touch for further help and advice.

Are you making the most of pensions tax reliefs?

Experts have recently warned that thousands of over-55s are at risk of incurring charges and reducing the available tax relief if they continue to delve into their pension pots whilst benefiting from workplace pension contributions. This article takes a look at some key pensions tax reliefs and allowances.

Relief on pension contributions

All pension schemes, whether they are workplace schemes or personal pension schemes, must be registered with HMRC. Money purchase pension schemes allow the saver to receive tax relief on contributions into the scheme, with tax-free growth of the fund. No tax charge is typically payable if the employer contributes into the scheme on the employee's behalf, and the employer will obtain a deduction from their taxable profits.

Pension savers can make contributions and receive tax relief on 100% of earnings in any given tax year, or on the higher of £3,600. Tax relief is, however, typically restricted for contributions in excess of the annual allowance (see below).

Tax relief on contributions is given at the saver's marginal rate of tax. Tax relief can be obtained on contributions made to a money purchase scheme via two methods:

- the payment of a net basic rate tax contribution by a member with higher rate relief, which was claimed through the self assessment system
- a net of basic rate tax contribution, paid by an employer to the pension scheme.

In both instances, the pension provider will then claim back the basic rate from HMRC.

The pensions annual allowance

The pensions annual allowance sets a limit on how much an individual can contribute into their pension each year, and still be in receipt of tax relief. The annual allowance is currently set at £40,000. Pension contributions in excess of this amount, including those made by an employer, may be charged to tax on the individual as their top portion of income.

The government is seeking to discourage pension saving in tax-registered pensions beyond the annual allowance. However, many savers are keen to reduce pension saving to below the allowance, rather than incur a charge.

Where total pension savings exceed the £1,030,000 lifetime allowance at retirement (and fixed, primary or enhanced protection is not available), a tax charge arises.

Tapered annual allowance for some

In April 2016, the government introduced a taper in order to restrict the amount of annual allowance available for pension savers with 'adjusted annual incomes' (an individual's net income and pension contributions made by their employer) over £150,000. A saver's annual allowance is reduced by £1 for every £2 of adjusted income over £150,000, down to a minimum of £10,000.

The Money Purchase Annual Allowance (MPAA)

The government is alive to the possibility of people taking advantage of pension flexibilities by 'recycling' their earned income into pensions and immediately withdrawing amounts from their pension funds. The MPAA sets the maximum amount of tax-efficient contributions an individual can make in certain scenarios. The allowance is currently set at £4,000 per annum, with no carry forward of the allowance to a later year.

The main scenarios in which the reduced annual allowance is triggered are if:

- any income is taken from a flexi-access drawdown account; or
- an uncrystallised funds pension lump sum is received.

However just taking a tax-free lump sum when funds are transferred into a flexi-access account will not trigger the MPAA rule.

For information on a range of tax-efficient personal planning strategies, please contact us.

Furnished holiday lettings – a tax-friendly alternative?

Landlords have been subject to a number of significant tax changes in recent times, including restrictions in the allowability of finance costs for tax purposes, which are being phased in between 2017/18 and 2020/21.

With this in mind, many are contemplating the potential advantages of furnished holiday lettings (FHLs). Here we outline some key areas to consider.

Meeting the conditions

A number of conditions apply to FHLs, some of which are outlined below.

To qualify as an FHL, a property must be situated in the UK or elsewhere in the European Economic Area (EEA). Where there are properties in the UK and the EEA, they are to be treated as two separate property businesses with parallel provisions.

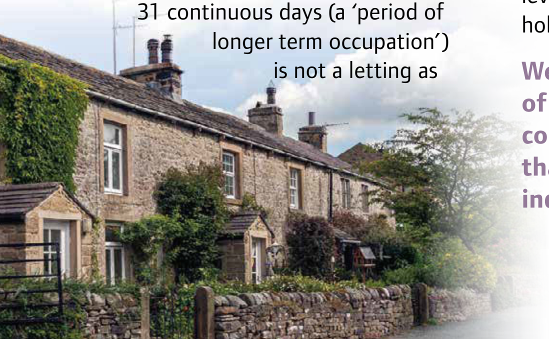
Accommodation is 'furnished' if the visitor is entitled to the use of the furniture. There should be sufficient furniture provided for normal occupation.

The business must be carried on commercially, i.e. let on a commercial basis and with a view to making a profit. Close season lettings may produce no profit but normally help towards the cost of maintaining the property. This letting can still be treated as commercial. On the other hand, lettings to friends or relatives at zero or nominal rents are not commercial.

Qualifying tests

An FHL property must also meet the qualifying tests:

- **Availability:** the property must be available for commercial letting as holiday accommodation to members of the public for at least 210 days during the relevant period;
- **Letting:** the property must be commercially let as holiday accommodation to members of the public for at least 105 days during the relevant period. A letting to the same person for longer than 31 continuous days (a 'period of longer term occupation') is not a letting as holiday accommodation for the purposes of this condition; and
- **Pattern of occupation:** total periods of longer term occupation must not exceed 155 days during the relevant period.



Some advantages of FHLs

The FHL market does offer some key tax advantages. Under the FHL rules, items such as furniture, equipment and fixtures will be covered by capital allowances as plant and machinery. This is in contrast with the buy-to-let market, where capital expenditure is not allowable for tax.

In addition, profits from an FHL business can count as relevant UK earnings when calculating relief for pensions purposes. Losses from an FHL business may only be carried forward against future profits from the same business, so profits and losses from a UK and an EEA FHL must be calculated separately.

HMRC treats FHLs as a trade, rather than an investment. This means capital gains tax (CGT) reliefs such as business asset roll-over relief and Entrepreneurs' Relief can be claimed, and it may be possible to get relief on gifts of business assets and relief for loans to traders. There is no restriction on the deductibility of mortgage interest incurred in relation to the FHL business.

Business Property Relief (BPR)

BPR is a key inheritance tax relief for businesses, and can potentially reduce the taxable value of a transfer of relevant business property by 50% or 100%, depending on the type of property involved. In some circumstances, FHLs can provide access to BPR, although to qualify it is necessary to provide a substantial level of services in addition to the holiday accommodation.

We can advise on all areas of tax and property. Please contact us for advice that is tailored to your individual circumstances.

Considering Enterprise Management Incentives

After a period of some uncertainty, HMRC has confirmed that the Enterprise Management Incentive (EMI) regime remains unchanged, and recent research has served to underline the importance of the scheme.

What is an EMI?

An EMI scheme is an approved employee share scheme which allows employers to offer share options to key employees as a reward. Unlike normal share options, an EMI scheme allows both the employee and the employer to enjoy tax benefits as long as certain conditions are met.

EMIs are designed to help small, high-growth, high-risk companies which are not necessarily cash-rich but are looking to motivate and retain staff. EMIs allow employers to offer a substantial number of shares to selected employees by issuing options. With an EMI scheme, it is possible for an employee to receive shares without a tax bill arising until the shares are sold. Disposal will attract capital gains tax (CGT), but in some circumstances employees may be able to access Entrepreneurs' Relief, reducing CGT liability to 10%.

For the employer, there is normally no national insurance contribution (NIC) charge when options are granted or exercised, or when an employee sells the shares. Employer companies also receive a corporation tax deduction broadly equal to the employee's gains.

Firms in qualifying industries with total assets under £30 million and fewer than 250 workers are eligible. Employees must dedicate a minimum of 25 hours or 75% of their time to the business.

Qualifying conditions

To qualify, a company must:

- exist wholly for the purpose of carrying on one or more 'qualifying trades'. Asset-backed trades, e.g. property development, operating or managing hotels, and farming or market gardening are excluded
- have gross assets of no more than £30 million
- not be under the control of another company. This means that if there is a group of companies, employees must be given an option over shares in the holding company.

It is also necessary for options to be capable of being exercised within ten years of the date of grant, but there does not have to be a fixed date.

The benefits of EMIs should always be assessed within the context of overall commercial objectives. However, as well as being a great incentive for key staff, EMIs can be of special benefit to companies experiencing rapid growth, or those involved in research and development.

For further information and advice on EMIs, and whether such an option might be appropriate for you, please contact us.

Tax Round-up

HMRC publishes VAT Notice for Making Tax Digital

In July 2018, HMRC published a new VAT Notice for Making Tax Digital for VAT (MTD for VAT), providing 'additional clarity' for businesses mandated to use the system from April 2019.

Under MTD for VAT, businesses with taxable turnover above the VAT registration threshold (currently £85,000) will be required to keep records in digital form, and file VAT returns using 'functional compatible software'. If a business's taxable turnover subsequently falls below the VAT registration threshold, the MTD requirement will remain.

VAT Notice 700/22 outlines the digital records businesses will be required to keep, and provides information on the ways in which transactions can be recorded digitally. It also supplies guidance on what counts as 'functional compatible software', and highlights instances in which software programs do and do not need to be linked digitally.

As outlined in the Notice, records to be kept digitally include 'designatory data'; the VAT account linking primary records and the VAT return; and information regarding supplies made and received. Digital records can be held in multiple compatible formats, and taxpayers will be permitted to use spreadsheets in combination with MTD software. However, manual transfer of data will not be allowed.

Business group calls for HMRC to simplify tax administration

The British Chambers of Commerce (BCC) recently called for HMRC to 'cut the complexity' associated with tax administration and compliance.

A survey carried out by the business group in conjunction with software company Avalara suggested that 75% of firms believe that the overall burden of tax administration and compliance has increased compared to five years ago.

A further 64% of firms reported that VAT generates 'the biggest administration and compliance burden', whilst many business owners feel 'under pressure' to be prepared for the April 2019 introduction of Making Tax Digital (MTD).

The BCC stated that there is a 'real need' to reduce compliance costs, transaction costs and the complexity of business tax, and has urged HMRC to 'make compliance easier', and improve its process for collecting tax.

We can help with all of your tax planning needs.

Tax Tip

The self-assessment deadline is approaching!

Don't forget to complete your 2018 self-assessment tax return by midnight on 31 January 2019 if you file online. The penalty for late filing is £100 if your return is up to three months late, increasing thereafter for continued payment failures.

Any tax you owe also needs to be paid by 31 January 2019. There is a penalty of 5% of the tax due for the first 30 days, which increases by 5% after six months, and a further 5% after 12 months.

We can help you to prepare and file your tax return: please contact us for more information.

Reminders for your diary

December 2018

1 New Advisory Fuel Rates (AFR) for company car users apply from today.

19 PAYE, Student loan and CIS deductions are due for the month to 5 December 2018.

30 Online filing deadline for submitting 2017/18 self assessment return if you require HMRC to collect any underpaid tax by making an adjustment to your 2019/20 tax code.

31 End of CT61 quarterly period.

Filing date for Company Tax Return Form CT600 for period ended 31 December 2017.

January 2019

1 Due date for payment of corporation tax for period ended 31 March 2018.

14 Due date for income tax for the CT61 quarter to 31 December 2018.

19 PAYE, Student loan and CIS deductions are due for the month to 5 January 2019. PAYE quarterly payments are due for small employers for the pay periods 6 October 2018 to 5 January 2019.

31 Deadline for submitting your 2017/18 self assessment return (£100 automatic penalty if your return is late) and the balance of your 2017/18 liability together with the first payment on account for 2018/19 are also due.

Capital gains tax payment for 2017/18.

Balancing payment – 2017/18 income tax and Class 4 NICs. Class 2 NICs also due.

February 2019

2 Deadline for submitting P46(car) for employees whose car/fuel benefits changed during the quarter to 5 January 2019.

19 PAYE, Student loan and CIS deductions are due for the month to 5 February 2019.