END OF TAX YEAR GUIDE

SPRING 2021

This newsletter is for general guidance only - action should not be taken without specific advice.

Should you require any further information, we shall be pleased to provide the same on hearing from you.

PEARSON MAY

CHARTERED ACCOUNTANTS & CHARTERED TAX ADVISERS

Originated 1841

www.pearsonmay.co.uk

OFFICES IN BATH, TROWBRIDGE AND CHIPPENHAM

CHARTERED TAX ADVISERS

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INTRODUCTION

As the end of the 2020/21 Tax Year approaches on 5 April, we are writing to remind you that it is a good time to review your affairs, making the most of opportunities to maximise your income and minimise your tax. The tax regime continues to change and whilst we do not expect anyone to read this document from beginning to end, we hope that by scanning the 'Contents' you will be able to pick out those items which are relevant to you.

Should you require further information or assistance in relation to any of the following points as they apply to your particular circumstances, the person dealing with your affairs will be pleased to assist you. **Where action may be necessary by 31 March or 5 April as the case may be, please seek this further assistance as soon as possible in order to avoid a last- minute rush**. In some instances, you may prefer to take action before the Budget (see below).

What's New

When the previous edition of this publication was produced twelve months ago, little did we know about how the year was going to unfurl. We had not had a budget for eighteen months and the March 2020 budget was thrown into turmoil by the sudden resignation of Sajid Javid. We knew that the Brexit transition period was ending on 31st December 2020, but would a satisfactory deal be achieved for the UK?

All expectations for 2020 were eclipsed by the coronavirus pandemic. New terminology has been brought into our everyday vocabulary such as self isolating, social distancing and furloughing. Many people are now aware of the working from home allowance, but do you know the detail behind when a claim is allowed? See section **76** for more information.

Some measures which were due to be introduced in April 2020, such as the changes to the off-payroll working rules (see section **63**), have been delayed by 12 months to April 2021, however, other aspects of H M Revenue and Customs modernising of the tax system have continued as usual. It is now necessary for UK residents to report the sale of a residential property within 30 days of completion if there is tax payable (see section **34**). The functionality of the Trust Registration Service ["TRS"] portal has been enhanced and there is now an annual obligation for many Trustees to access the TRS portal (see section **53**). As H M Revenue and Customs continue the process of aligning its many databases and computer systems, we have seen an increase in the number of letters being issued by H M Revenue and Customs questioning whether bank interest figures declared on earlier year's Tax Returns are correct (see section **11**). Airbnb is now sharing data with H M Revenue and Customs regarding the earnings of hosts on its UK platform for the years 2017/18 onwards; if you receive income from Airbnb, are you confident that your tax affairs are up to date or do you perhaps need to consider making use of H M Revenue and Custom's Let Property Campaign (see section **10**)?

The Chancellor had intended to publish a budget in the autumn of 2020 but a surge in coronavirus cases at the time caused him to delay the budget until 3rd March 2021. There has been much coverage in the press that the Chancellor will have to seek to collect more tax in order to pay for the coronavirus pandemic measures which have been put in place. An area of tax that is getting a lot of attention is that of capital gains tax. A report has been issued by the Office for Tax Simplification (OTS) which makes several recommendations to the Chancellor, including:

- aligning capital gains tax rates with income tax rates. i.e., instead of paying capital gains at rates of 10% for basic rate tax payers and 20% for higher rate tax payers, these will be increased to 20% and 40% respectively;

- reducing the CGT annual exemption and replacing it so that it only covers asset price increases that are equivalent to inflation. Currently the threshold is expected to increase to £12,500 for 2021/22 but the OTS provided examples to the Treasury of the effect of reducing it to £12,000, £5,000 or even £1,000.

Each of the above are only speculations, however, it has been seen in the past that previous chancellors do not wait until the start of a new tax year to enact the changes to tax rates, sometimes the changes come into effect the day after budget day. Therefore, if you are concerned by either of the above, you may wish to take action ahead of 3rd March.

Where possible, we have tried to include the expected rates and allowance for 2021/22 within each section of this publication. We will, of course, produce a summary of the Budget announcements in the days following the 2021 Budget.

Action Required

Our table of contents indicates those items where action may be required by 5 April 2021 (*) (or by 31 March 2021 in the case of certain matters relating to limited companies).

References in this guide to a spouse should be read as including a civil partner, and any references to 'he' or 'she' should also be read to include the other.

Our Website – www.pearsonmay.co.uk (including a fortnightly e-mail newsletter)

Do not forget to visit our fully interactive website. You will be amazed at the useful information you will find there, particularly in the 'Resources' section, including online services and calculators. When you register on the site you can also subscribe to our fortnightly e-mail newsletter which contains business news that is highly relevant to Small and Medium Enterprises (SMEs) and owner-managed businesses.

Fee Protection Scheme

Clients of this firm are reminded that we offer a fee protection scheme as an insurance against our fees for representing them in the event of a Revenue investigation. Clients who would like further information about this cover should contact the person with whom they normally deal.

CONTENTS

PERSONAL TAX - Income

1 Personal Allowances
2 Marriage Allowance
3 Taxation of Savings Income
4 Individual Savings Accounts (ISAs)
5 Taxation of Dividend Income
6 Property and Trading Income Allowances
7 Repayment Claims
8 * High Earners
9 * High Income Child Benefit Charge (HICBC)
10 Declaring Underpaid Tax
11 Information Sharing with H M Revenue and Customs by Third Parties
12 Self Assessment Tax Returns
13 PAYE Tax Coding Notices
14 * Income from Employment
15 Gift Aid Payments to Charities or Community Amateur Sports Clubs
16 Domicile and Remittances
17 Unremitted Income and Gains of Less Than £2,000
18 * Non-Domicile Status – Becoming UK Deemed Domiciled
19 * Statutory Residence Test (SRT)
20 Certificate of Residence
21 * Furnished Holiday Lettings
22 Residential Property Lettings – Replacement of Domestic Items Relief
23 Residential Property Lettings – Rent-a-Room Relief
24 Residential Property Lettings – Restricting Finance Costs for Landlords
25 Simplified Cash Basis for Unincorporated Property Businesses
26 * Pension Provision – Annual Allowance
27 * Pension Provision – Money Purchase Annual Allowance (MPAA)
28 * Tapered Annual Allowance
29 Pension Planning
30 Protection of Pension Lifetime Allowance
31 Pre-Owned Assets Tax

PERSONAL TAX - Capital

32 * Capital Gains Tax (CGT) – Annual Exemption
33 CGT Rates of Tax
34 Disposal of UK Land and Property
35 * Permanent Separation and Divorce
36 Capital Gains Tax on Second Homes
37 Annual Tax on Enveloped Dwellings (ATED)
38 Stamp Duty Land Tax on Let Properties and Second Homes
39 Principal Private Residence (PPR) Relief Issues
40 Payment of Capital Gains Tax (CGT)
41 Capital Gains Tax Reliefs
42 * Inheritance Tax – Exemptions for Lifetime Gifts

43 Inheritance Tax Planning for Widows and Widowers
44 Residence Nil-Rate Band (RNRB)
45 Inheritance Tax – Reduced Rate for Estates Leaving 10% or more to Charity

TRUSTS AND ESTATES

46 Discretionary Trusts – General
47 Estates in Administration
48 Interest in Possession Trusts
49 Discretionary Trusts – Making Use of Normal Expenditure out of Income
50 Discretionary Trusts – Accumulations of Income
51 * Capital Gains of Trusts and Estates – Rates of Tax and Annual Exemption
52 * Deceased Persons' Estates - Income Distributions
53 Trust Registration Service (TRS) Penalties
54 Probate Services

BUSINESSES

55 Employment Allowance for Class 1 National Insurance Contributions (NICs)
56 National Minimum Wage/ National Living Wage
57 Workplace Pension Contributions
58 Professional Bureau Payroll Service
59 Tax-Free Childcare Scheme
60 Payroll Changes
61 Termination Payments
62 Company Car and Van Benefit
63 * Off-payroll working/IR35
64 * Corporate Structure versus Sole Trader

GENERAL

65 Making Tax Digital (MTD)
66 Changes to the Capital Allowances Regime
67 Reduction in Corporation Tax Rates
68 National Insurance Contributions (NICs) from 6 April 2020
69 National Insurance – Credits Towards Additional State Pension
70 Sole Proprietors and Partnerships – Having a Bad Year?
71 Having a Good Year – Extraction of Profits
72 Money Laundering Regulations
73 Brexit

CORONARVIRUS MEASURES

74 Self Employed Income Support Scheme (SEISS)
75 Coronavirus Job Retention Scheme (CJRS)
76 Working From Home Allowance
77 Tax Returns for the year ended 5 April 2020
78 Company Cars
79 Tax Free Childcare
80 Statutory Residence Test

ACTION POINTS

PERSONAL TAX – INCOME

1 *Personal Allowances*

Most individuals are entitled to receive a certain level of income that is free of tax. Generally, the personal allowance is £12,500 for the current tax year and is due to increase to £12,570 from 6 April.

There are restrictions on high earners (see Section **8)**. Please also refer to Section **3** regarding the "starting rate" for bank and building society interest and the taxation of investment income.

For the current year, income in excess of the personal allowance is taxed as follows:

	Taxable income range
basic rate (20%)	£0 to £37,500
higher rate (40%)	£37,501 to £150,000
additional rate (45%)	£150,000 upwards

From 6 April, these rates are due to be:

	Taxable income range
basic rate (20%)	£0 to £37,700
higher rate (40%)	£37,701 to £150,000
additional rate (45%)	£150,000 upwards

You should consider whether everyone in your family is taking full advantage of the personal allowance, or whether there might be opportunities to utilise any unused allowances (See Section **2** regarding the Marriage Allowance). Are you doing what you can to take advantage of the basic rate band (e.g., owners of companies may wish to consider paying a dividend or interest on a director's loan before the end of the tax year) or to reduce the slice of income taxable at higher rates (e.g., payment of pension premiums or Gift Aid donations)? See Section **71** for planning tips.

2 *Marriage Allowance*

Where neither spouse is liable to income tax above the basic rate, individuals are able to transfer part of their tax-free personal allowance to their spouse or civil partner.

It is not available to couples who are entitled to claim the Married Couples Allowance (i.e., those where at least one spouse or partner was born before 6 April 1935).

To benefit as a couple the lower earner will need to have an income of £12,500 or less in the 2020/21 tax year. The transferable amount in the 2020/21 tax year will be £1,250 representing a potential income tax saving of up to £250.

A claim can be made within 4 years of the end of the relevant tax year at:

www.gov.uk/marriage-allowance

3 *Taxation of Savings Income*

The 0% "starting rate" for interest means that the first £5,000 of savings income will be taxed at 0% as long as the individual does not have other taxable income which exceeds that amount.

The Personal Savings Allowance (PSA) is an amount of interest which individuals are allowed to receive free from income tax.

The current allowance is:

- basic rate taxpayers: £1,000
- higher rate taxpayers: £500
- additional rate taxpayers: nil

If you fill in a Self Assessment Tax Return, you should carry on completing this as normal.

If you do not complete a Self Assessment Tax Return, and the interest you receive is in excess of the above thresholds, H M Revenue and Customs will normally collect any tax due by changing your tax code. They should be provided with the information that they need in order to do this by the banks and buildings societies. However, see Section **12** for circumstances which require you to complete a Tax Return.

4 Individual Savings Accounts (ISAs)

Income and/or gains arising on investments held within an ISA are outside the scope of tax. For 2020/21, the maximum amount which can be paid into an ISA is £20,000; this can be a stocks and shares ISA, a cash ISA or combination of the two. There are also Innovative Finance ISAs , Lifetime ISAs and Help to Buy ISAs.

In order to subscribe for a stocks and shares ISA the individual must be 18 or over and resident in the UK. However, cash ISAs may be opened by 16- and 17-year-olds resident in the UK.

Junior ISAs and Child Trust Funds

Junior ISAs can be held as stocks/shares and/or cash for children under the age of 18 who live in the UK. The maximum amount which can be deposited is £9,000 for 2020/21. Contributions can be paid in by anyone, including parents and other relatives. Once deposited, the funds belong to the child and are locked in until the child reaches 18. If the funds remain thereafter the Junior ISA will become a regular ISA automatically. A Junior ISA can't be opened if the individual already has a Child Trust Fund.

Child Trust Funds ["CTF"] commenced for children born in September 2002 and investments were locked in until the child reached 18. The first CTF started to mature in September 2020. If you have lost the details of your child's CTF, more information can be found at:

https://www.gov.uk/child-trust-funds/find-a-child-trust-fund

Lifetime ISA and Help to Buy ISA

Individuals between the ages of 18 and 40 can open a Lifetime ISA. Savings of up to £4,000 per year made before an individual's 50th birthday will receive an added 25% bonus from the government. The savings can be withdrawn tax-free to put towards the purchase of a first home, or after the individual's 60th birthday. Help to Buy ISAs are now closed to new savers.

Innovative Finance ISA

These can be used to hold peer-to-peer loans and receive interest and repayments from the loans free of tax.

ISA benefits after death

A surviving spouse or civil partner is now granted an additional ISA allowance equivalent to the value of the deceased's ISA(s) so that the tax-free status of the savings for income tax and capital gains tax may be preserved.

5 Taxation of Dividend Income

A dividend nil rate band (also known as the dividend allowance) applies to individuals, regardless of their rate of tax. It does not reduce total income; instead it taxes an amount of the dividend at 0%. The current dividend allowance is £2,000.

For dividend income in excess of the dividend allowance, the current rates of tax are:

Dividend income within:

- basic rate band 7.5%
- higher rate band 32.5%
- additional rate band 38.1%

Dividends received on shares held in an ISA continue to be tax free.

Individuals who receive between £2,000 and £10,000 of dividends and who need to pay tax on those dividends at the basic rate will need to notify H M Revenue and Customs. Individuals with more than £10,000 of dividend income will be required to complete a Self Assessment Tax Return.

6 Property and Trading Income Allowances

The first £1,000 of gross trading or miscellaneous income, and the first £1,000 of property income are exempt from income tax. An individual should qualify for full relief if the income is less than the £1,000 allowance. Not only will there be no income tax to pay, but there will also be no need to register with H M Revenue and Customs, if there is not otherwise any reason to do so.

If income exceeds £1,000, the individual will have the choice to:

- Deduct allowable expenditure in the normal way, or,
- Elect for partial relief and deduct the £1,000 allowance from their gross income but be taxed on the excess regardless of actual allowable expenditure.

The property income allowance will not apply to income which qualifies for Rent-a-Room relief.

The rules for the trading allowance do include some exclusions. Please contact us for further details.

7 Repayment Claims

Repayment claims can be prepared and submitted for anyone who thinks they might have overpaid tax but are not within the Self Assessment system. This can include minor children who receive money from a Trust. Please let us know if you think any member of your family may be able to benefit from a repayment of tax.

The time limit for outstanding repayment claims is four years, so if you think that you may have overpaid tax in the year ended 5 April 2017 then a claim must be made by 5 April 2021; a claim for the year ended 5 April 2021 must be made by 5 April 2025.

8 High Earners

Personal allowances are lost by high earners. Those with a net adjusted income in excess of £100,000 for 2020/21 will lose the whole or part of their personal allowance of £12,500. For every £2 of income in excess of £100,000 the allowance is reduced by £1 with an effective marginal rate of income tax of 60%. Once income reaches £125,000 the allowance is completely eliminated.

A measure of relief may be available by paying pension premiums or gift aid donations during the year to mitigate the effect of this. If advantageous, it is possible to backdate gift aid contributions from the 2021/22 tax year via your 2021 Tax Return (see Section **15**).

9 High Income Child Benefit Charge (HICBC)

The HICBC affects individuals whose net adjusted income exceeds £50,000 and where either they or their partner are in receipt of child benefit. For every £100 of income above £50,000, the entitlement to child benefit is reduced by 1%. Once the adjusted income exceeds £60,000, the HICBC will equal the child benefit received for the tax year.

The income threshold must be reviewed each tax year, particularly if profits or bonuses fluctuate, or a pay rise is awarded.

If you are affected and continue to receive child benefit, then you will need to declare the amount received by making an entry on your Self Assessment Tax Return. If you do not currently complete a Tax Return, you will need to register for Self Assessment. You can elect not to receive child benefit in the future, particularly if your income is in excess of £60,000 and is unlikely to fluctuate.

However, if your partner is not earning, consideration should be given to making a claim for child benefit for children under the age of 12 but electing not to receive the actual payments. The non-earning partner will be entitled to Class 3 national insurance credits thereby preserving their national insurance record as a result.

If your adjusted net income is only marginally above £50,000 you may wish to consider salary sacrifice for pension contributions for example, or simply increasing your pension contributions to reduce your net adjusted income below £50,000.

10 Declaring Underpaid Tax

The Common Reporting Standard (CRS) is a global standard for the automatic exchange of financial account information between governments around the world to help fight against tax evasion. It requires all financial institutions who operate in a CRS participating jurisdiction to gather certain customer information and report it to local tax authorities.

In light of the sharing of information between jurisdictions, if you have not paid the right amount of income tax, capital gains tax, national insurance contributions or corporation tax, then you would be in a much better position if you approach HMRC voluntarily rather than waiting to be discovered by HMRC. Penalties of up to 200% of the undisclosed tax may be levied by HMRC.

HMRC is currently running a let property campaign – this offers landlords the opportunity to bring their tax affairs up-to-date or put right any errors they may have made. If the underpaid tax relates to matters other than income from property, voluntary disclosure should be made using the Digital Disclosure Service.

Professional advice should be sought before making any form of disclosure.

11 Information Sharing with H M Revenue and Customs by Third Parties

Historically, H M Revenue and Customs computer systems for different areas of the tax system were all stored on separate databases. As part of modernising the tax system, and as a consequence of the data sharing regulations mentioned in Section **10**, HMRC are in process of linking up all their computer systems and databases.

Banks and building societies and other financial institutions are required to submit details of interest and investment income directly to HMRC. This includes accounts held offshore. We are seeing an increasing number of letters being issued by HMRC which question whether investment income has been correctly disclosed on Tax Returns.

HMRC's data gathering powers extend beyond bank interest and dividend income. Airbnb is now sharing data with H M Revenue and Customs regarding the earnings of hosts on its UK platform. HMRC also gather information from credit card data, Land Registry reports, and third-party databases.

In the digital age, there is no hiding from HMRC and if you are found to have omitted income from your Tax Return, you are at risk of substantial penalties (see Section **10**)

12 Self Assessment Tax Returns

Self Assessment Tax Returns for the year ended 5 April 2021 must be submitted by the following dates to avoid automatic penalties and interest:

Tax Return Type	Deadline
Paper Tax Return	31 October 2021
Electronic Tax Return	31 January 2022

Please let us have details of your income and relevant outgoings as well as acquisitions and disposals of assets for capital gains tax purposes at the earliest possible moment so that the deadline may be met. In practical terms, it becomes very difficult for us to meet the deadline if information is not submitted in good time.

Registering for Self Assessment and Completing a Tax Return

You may need to register for Self Assessment and complete Tax Returns if:

- You are self-employed.
- Your untaxed income was £2,500 or more.
- You had a P800 from H M Revenue and Customs (HMRC) and didn't pay the tax owed voluntarily.
- Your savings or investment income was £10,000 or more before tax.
- You were a company director, and all your income is not taxed at source.
- Your income was over £50,000 and you or your partner continued to receive child benefit.
- You had income from abroad that you need to pay tax on.
- You lived abroad and had a UK source income.
- Your income was over £100,000.
- There are capital gain disposals, such as the sale or gift of assets.

Registration for Self Assessment must be made by 5 October following the end of the tax year for which you need to submit a Return. For the 2020/21 tax year, the deadline for registration is 5 October 2021.

Savings or Investment Income below £10,000 but where tax is due

Untaxed income below the thresholds for Self Assessment must be reported to HMRC if tax is due on this income.

Where possible, HMRC will collect the tax due on this income by making an adjustment to your PAYE tax code. However, if this is not possible, they may issue a Tax Return.

Use of Savings Interest Data by HMRC

HMRC are using, in some instances, savings interest data received directly from banks and building societies to populate tax calculations. Current year PAYE codes are also being amended based on the previous year's interest.

Simple Assessments

HMRC has the power to make a 'simple assessment' of an individual's income tax or capital gains tax liability where the individual has straightforward affairs which HMRC can pre-populate from salary/pension/interest data information already held.

If you receive a simple assessment tax calculation (known as either a P800 or a PA302) from HMRC, it is advisable to check that the figures used by them are accurate and complete and not just accept the calculation. Any corrections must be notified to HMRC within 60 days with supporting evidence.

Equally, if you believe that you have a tax liability for a tax year and do not receive a simple assessment tax calculation by 5 October after the end of the tax year, the onus is still on you to notify HMRC yourself as discussed above.

Collection of Debts via PAYE Tax Code

If your tax liability for the year is less than £3,000 and you are employed or receive a pension subject to PAYE, it is possible to

have any amounts which you owe to HMRC collected via your PAYE Tax Code rather than making a payment, provided various conditions are met. Overpayments of tax credits and late paid Class 2 national insurance contributions can also be collected in this way, but not if the tax is due under a simple assessment. The amount of underpaid tax that can be collected via the PAYE code is subject to an overriding limit which prevents more than 50% of your PAYE income being deducted as tax. In addition to the criteria, your Tax Return must be filed electronically by 30 December.

Collecting an underpayment of income tax via the PAYE Tax Code can have the consequential effect of reducing payments on account due for the following tax year, thereby improving cashflow.

Paying your Self Assessment Tax Liability

Details of how to make payment to HMRC can be obtained from www.gov.uk/pay-self-assessment-tax-bill or we can provide a list.

A Time to Pay service (see Section **77**) has been introduced to support taxpayers who may struggle to pay their tax liability.

13 PAYE Tax Coding Notices

We can only emphasise how important it is to ensure that the PAYE codes being operated against the income from your employment or pensions are reasonable. This is particularly important where you have multiple sources of employment or pension income.

H M Revenue and Customs (HMRC) carry forward figures for personal pension contributions, gift aid, employment expenses and other income on the assumption that they remain the same from year to year. They should be updated once your P11D and/or Tax Return is submitted. However, there have been cases where these figures remain/become out of date and, therefore, incorrect.

HMRC do not send copies of these PAYE Tax Coding Notices to us as agents, so if you are in any doubt please forward copies to the person who usually deals with your affairs in order that we may review them for you.

14 Income from Employment

Clients who are anticipating fees, bonuses or other remuneration for past or current years should consider whether steps should be taken to pay part or all of such bonuses to them on or before 5 April 2021 in order to fully utilise their personal allowances and basic (20%) rate tax band for 2020/21. If you are in any doubt about your position in this respect, **please advise us immediately.** For those earners with total income in the region of £100,000 there is the question of whether pension premiums or gift aid payments should be paid in order to avoid an effective 60% rate of income tax (income between £100,000 and £125,000).

15 Gift Aid Payments to Charities or Community Amateur Sports Clubs

All clients should keep a detailed schedule of all payments they make, which are covered by the gift aid regulations. For higher rate and additional rate tax payers, tax relief on the grossed-up value gift aid donation will be due, as follows:

- Higher rate tax payers: 20% relief
- Additional rate tax payers: 25% relief

For example, if a gift of £80 is made to a charity (net) the higher rate tax relief will be 20% of £100, i.e., an additional £20. For additional rate taxpayers, this relief is £25.

Most of us find ourselves sponsoring family members and friends for various sporting or other charitable activities, and almost always

the sponsorship money may be gift aided if we tick the appropriate box on the form. Furthermore, many donations made in lieu of flowers at funerals etc., can also be gift aided, together with membership subscriptions paid to charity e.g., National Trust, although strangely life membership does not qualify.

Payments to a charity in return for services, rights or goods aren't gifts to charity and so are not eligible for the Gift Aid Scheme. For example, the following cannot come within the Gift Aid Scheme:

- payment for raffle or lottery tickets (including air ambulance, 100 clubs etc.)
- payment of school fees for a specific person
- payment to purchase books, fancy goods, food etc.
- payment for admission to events (e.g. concerts) or a fee for a sponsored challenge

With gift aid, single payments as well as regular payments can attract the additional tax relief.

If a record is not kept as each tax year passes, it is going to be very difficult to remember at the end of the year what donations have been made so that these can be included in the Self Assessment Tax Return.

Backdating payments may be considered where this may be advantageous, e.g., where income is over £100,000, or tax is paid at a higher rate in the earlier year, or even just to secure a cash flow advantage.

For couples, where one member of a couple is a basic rate taxpayer and the other is a higher rate taxpayer, payments under gift aid should be made by the higher rate taxpayer as they will be able to claim higher rate relief for the payments.

A note of caution, however, for clients with lower income, is that one must pay sufficient income or capital gains tax to cover the tax the charity is reclaiming on your donation. If you haven't then you may be required to pay any shortfall in tax to H M Revenue and Customs. If you don't think that you have paid enough tax this year, you may be able to carry back your donation to the previous tax year if this helps. Please ask us for advice. In this scenario, future donations may be made, but the gift aid box should not be completed.

Along the same vein, individuals who hold the majority of their investments in ISAs should also be mindful of the fact that as these are tax free; this source of income cannot cover any tax a charity may be reclaiming on your donation, and you may end up with an unexpected tax bill.

Donations of Land, Property or Shares

If an individual donates land, property or shares to charity, they may not have to pay tax. Income tax relief is given by deducting the value of the donation from the individual's total taxable income for the tax year in which the gift or sale was made. Such relief cannot be backdated.

No capital gains tax is payable on land, property or shares gifted to charity. Individuals may also sell the assets at less than market value, but capital gains tax may be payable if assets are sold for more than their cost price but less than their market value.

Records must be kept of the gift and the charity's acceptance.

If you are contemplating such a gift please seek our advice, as there may be a significant tax difference in donating the asset to charity rather than selling the property and gifting the proceeds.

16 Domicile and Remittances

Domicile is a legal concept and is not defined for tax purposes. You will typically be domiciled in the country where you consider your 'roots' are, or the country where you have your permanent home. It is not the same as nationality, citizenship or residence.

If you know or suspect that you may not be domiciled in the UK then please ensure that we are aware of your position, even if you think that you may have mentioned it previously. This is particularly important where you have unremitted foreign income and gains in the year.

A claim may be made for the remittance basis of taxation to apply, by an individual who is not UK domiciled. However, you must also take into account the deemed domicile rules if you are considering accessing the remittance basis (see Section **18**).

Non-UK domiciled resident adults who claim the remittance basis and who have been resident in the UK for 7 of the 9 tax years preceding the relevant tax year, have to pay a Remittance Basis Charge (RBC) of £30,000 in respect of the foreign income and gains they leave outside the UK.

The RBC for non-domiciliaries, who have been UK resident in at least 12 of the last 14 years, is £60,000.

The RBC is in addition to any tax due on UK income and gains or foreign income and gains remitted to the UK, if the individual wishes to continue to benefit from the remittance basis.

Individuals who claim the remittance basis are not entitled to personal income tax allowances, nor can they claim the capital gains tax annual exemption.

Offshore funds will need to be carefully tracked, as individuals are taxable on any amounts of income or gain remitted, and the administrative and professional costs of managing this process can be significant.

If a non-domiciliary brings funds into the UK "for the commercial investment in UK businesses" then business investment relief may be available, and these funds may not be taxed in the UK. The investment has to be a "qualifying investment". If you require more details, then please contact the person who normally deals with your affairs.

17 Unremitted Income and Gains of Less Than £2,000

Most people have to make a claim for the remittance basis (see Section **16**) but in three cases it is automatically given:

- the individual's unremitted foreign income and gains are less than £2,000 for the tax year.
- They are under 18 at the end of the tax year and have no more than £100 of UK taxed investment income and they have no other UK taxable income and they do not remit any relevant income or gains to the UK.
- the individual has been resident in the UK for not more than six out of the last nine years and has no more than £100 of UK taxed investment income, no other UK taxable income and does not remit any foreign income/gains to the UK.

This means that the personal allowance and other allowances normally lost by claiming the remittance basis are maintained.

As bank and building society interest is now paid gross, an individual with a small amount of interest who would previously have met these conditions may no longer do so. In such circumstances one could consider whether it is desirable to move the funds into a non-interest-bearing account. Otherwise a formal claim for the remittance basis may be needed.

18 Non-Domicile Status – Becoming UK Deemed Domiciled

When a non-UK domiciled individual becomes deemed domiciled in the UK then the consequences are significant and they will have to pay tax on their personal worldwide income and gains as they arise.

For income and capital gains tax purposes, individuals born in the UK with a UK domicile of origin who have subsequently acquired a domicile of choice elsewhere (i.e. a returning UK domiciliary) will become deemed domiciled if they return to live in the UK and become tax resident in the tax year.

For inheritance tax purposes the rules are slightly less harsh. A formerly domiciled resident will become deemed domiciled if they were born in the UK, had a UK domicile of origin, is UK resident in the tax year and has been UK resident for at least one of the two previous tax years. In other words they don't become deemed domiciled for IHT purposes in the first year of UK residence.

Long term UK resident non-domiciled individuals are now deemed to be UK domiciled, and so treated as such for all tax purposes, if they have been resident for at least 15 out of the last 20 tax years. To determine residency, the rules which were in place for the year in question should be used, rather than just the Statutory Residence Test (see Section **19**).

An individual will only lose his deemed domicile status if he then becomes non-resident for six tax years, as at that point he will no longer meet the 15 out of the last 20 tax years' condition. He will lose his deemed domicile status from the start of his seventh year of non-residence.

If you think that your domicile status may be affected by these changes you should seek advice regarding your potential exposure to UK tax so that the appropriate planning measures can be undertaken.

19 Statutory Residence Test (SRT)

UK tax liability may depend on a person's domicile and whether or not he is UK resident. An individual's UK residence status is determined by using the SRT. The SRT comprises three tests:

- automatic overseas test
- automatic residence test
- sufficient ties test

It must be noted that the SRT is not a one-off test but must be carried out every year. The test applies for income tax, capital gains tax and inheritance tax purposes, and if you would like our assistance with considering your residence status, either retrospectively or for planning purposes, then please contact the person who normally deals with your affairs.

20 Certificate of Residence

If you are resident in the UK and have income and/or gains in another country, you may be able to claim double tax relief or exemption so that you do not pay tax twice on the same income/gains. In order to do this some countries require you to complete a 'certificate of residence' to confirm that you were resident in the UK for a particular period. There is now the facility to apply online via H M Revenue and Customs' (HMRC) website for a certificate. If you require our assistance, then please let us know.

Alternatively, a 'letter of confirmation' confirming residence can be issued by HMRC in certain circumstances where relief is not required under a double taxation agreement.

21 *Furnished Holiday Lettings*

A furnished holiday lettings (FHL) business is taxed following the rental business (property income) calculation rules but is treated as a trade for some tax purposes and therefore has some tax advantages over other lettings. The two possible bases of assessment for FHL businesses are:

- the simplified cash basis, which is the default basis (see Section **25**), or
- the accruals basis.

A property will qualify as an FHL if it meets the necessary criteria:

- The property must be in the UK or European Economic Area (EEA).
- The property will have to be available for letting to the public for 210 days in the tax year, and actually let for 105 days.
- The property must not be let for longer term occupation (to the same person for more than 31 continuous days) for more than 155 days.

For further guidance on whether your property meets the criteria, please contact us.

At the time of writing no special dispensations have been granted to make allowance for the impact of COVID-19, although for established businesses a 'period of grace' election may be possible.

The tax advantages are:

- The favoured capital gains tax treatment, including roll-over relief, hold-over of gains on gifts and Business Asset Disposal Relief all still apply.

- If the simplified cash basis is used then capital expenditure on plant and machinery, including furniture and furnishings, etc. can generally be deducted from the profits of the tax year when the expenditure is actually incurred. If an election is made for the accruals basis then capital allowances may continue to be claimed on plant and machinery.

- Profits count as earnings for pension purposes.

- FHLs are exempt from the restriction on relief for finance costs relating to the letting of residential property.

22 *Residential Property Lettings – Replacement of Domestic Items Relief*

"Replacement of domestic items relief" allows landlords of any type of residential property, whether let furnished, unfurnished, or partly furnished, to deduct the actual costs of <u>replacing</u> furniture, furnishings, appliances and kitchenware provided for the tenant's use.

Consideration must be given as to whether the replacement item is an improvement on the old item as this affects the relief which can be claimed. Please contact the person who normally deals with your affairs for further guidance.

It continues to be the case that no tax relief will be available for the initial cost of furnishing a property.

Landlords of furnished holiday lettings are not entitled to claim "Replacement of domestic items relief", but instead may claim the full amount of capital expenditure incurred or capital allowances depending on the basis of assessment used (see Section **21**).

23 Residential Property Lettings – Rent-a-Room Relief

Rental income of up to £7,500 per annum is exempt from income tax where an individual receives rent from a lodger sharing the individual's home in the UK.

If another person who lives in the property as his only or main residence is entitled to receive rent, the exemption is halved, irrespective of the actual split of the rents. Rent-a-room relief is also available if an individual rents out rooms in a guest house, Bed & Breakfast or similar, providing that it is their main residence.

However, it should be borne in mind that your entitlement to the capital gains tax Principal Private Residence exemption may be affected if you have lodgers in your home (see Section **39**).

24 Residential Property Lettings – Restricting Finance Costs for Landlords

The amount of tax relief available on mortgage interest and finance costs has been gradually restricted to 20%, being the basic rate of income tax. Previously, landlords who were higher rate taxpayers or additional rate taxpayers were able to receive tax relief at their marginal rates.

With effect from 6 April 2020, 100% of the interest will only obtain tax relief at 20%. Therefore, rather than the interest appearing in the profit and loss computation, it will now appear in the tax calculation, as a tax reducer. The tax reducer is calculated as 20% of the finance charges for the year.

The restriction is not just in relation to interest but also includes finance costs such as such as application fees charged by lenders, loans to purchase furniture etc.

Those adversely affected will be higher rate and additional rate taxpayers, particularly those with substantial borrowings as well as some basic rate taxpayers if the change pushes them into the higher rate bracket. The changes may also lead to the full or partial loss of personal allowances or trigger the High Income Child Benefit Charge.

The restriction will not apply to landlords of furnished holiday lettings or commercial properties.

The possible adverse tax consequences have resulted in some landlords considering various options such as increasing rents, selling their rental properties or the incorporation of their residential property businesses. However, the potential capital gains tax and stamp duty land tax implications as well as the commercial effects, e.g., on bank lending, should be carefully addressed before going down the latter route. In some cases, the transfer of a property rental business on incorporation could trigger a substantial capital gains tax liability.

One of the attractions of incorporation used to be that companies would benefit from indexation allowance when calculating any gains arising upon disposal. However, indexation allowance was frozen with effect from 1 January 2018 and so this tax advantage has been lost for anybody considering incorporation at this stage.

25 Simplified Cash Basis for Unincorporated Property Businesses

The default method for calculating property income is now the simplified cash basis. Income is recognised when it is received by the business owner and expenses are recognised when they are paid. If your property is let through an agent, the date on which income is deemed to be received is when the agent receives the rental income, not the date it is paid over to the landlord.

A property owner can elect to use the accruals basis instead.

There are also certain circumstances when the accruals basis must be used including:

- When the property business is not carried on by individuals;
- When the gross property income exceeds £150,000;
- Where the property business is jointly owned by spouses or civil partners, the other party must use the accruals basis if one party has elected for it to apply.

26 Pension Provision - Annual Allowance

The Annual Allowance, which limits the amount that can be contributed to a pension each year while still attracting tax relief, is capped at £40,000. This includes the total (gross) amount of contributions paid by the individual, the employer and by anyone else on the individual's behalf. However, if the individual is drawing down pension benefits using flexible drawdown or exceeds the income limit for capped drawdowns, he will receive a lower Money Purchase Annual Allowance (MPAA), currently £4,000 (see Section **27**).

The Annual Allowance will also be reduced (tapered) if both of the following apply:

- income excluding pension contributions exceeds £200,000,
- income plus pension contributions (personal and employer) exceeds £240,000 (see Section **28**).

Tax relief is given at the individual's marginal rate of tax. You can top up your Annual Allowance for the current tax year with any allowance that you didn't use for the previous three tax years, up to the level of your net earnings. The current year's relief is always used first, and then any unused relief from the previous three years can be used, with the earliest year's allowance used first.

With regard to bringing forward the unused relief from earlier years, you must have been a member of a scheme during the year concerned. If you would like our assistance in calculating the relief available, please let us know.

With careful planning, it should be possible for most to manage contributions so that they are covered by available allowances. This may not be possible for high earners and long servers in defined benefit schemes with generous accrual rates. If contributions exceed allowances, then an annual allowance charge arises.

We would recommend that great care is taken if your contributions are approaching the limit and that advice is sought from ourselves in conjunction with your pension advisers to ensure that the specific annual allowance relevant to you is established.

27 Pension Provision – Money Purchase Annual Allowance (MPAA)

A money purchase pension scheme is one in which members have some form of savings plan into which contributions are paid. There is no agreement about the benefits that will be paid under the scheme. Most occupational pension schemes and all personal pension arrangements are money purchase arrangements. Money purchase arrangements are often also known as 'defined contribution schemes.'

An individual is only caught by the money purchase annual allowance (MPAA) rules if they have already started to access a pension fund. The MPAA is an anti-avoidance rule to stop people from taking money out of one pension fund and reinvesting it in another, therefore benefiting from double tax relief.

The MPAA is a separate allowance to the one referred to in Section **26** and is currently

£4,000. If this threshold is breached then an annual allowance charge may arise on the pension contributions in excess of the MPAA.

The rules governing the MPAA are complex. If you are concerned that you are caught by the MPAA then we would urge that you seek advice is from ourselves in conjunction with your pension advisers.

28 Tapered Annual Allowance

The pension Annual Allowance is tapered for all individuals whose "threshold income" (all income i.e., investment as well as earned) is more than £200,000. If the "threshold income" exceeds £200,000, they must calculate their "adjusted income" (which includes the value of all pension contributions regardless of source). If the adjusted income exceeds £240,000, the pension annual allowance will be tapered.

For every £2 that an individual's "adjusted income" exceeds £240,000 the annual allowance is reduced by £1, up to a maximum reduction of £36,000. Therefore, for individuals whose income is over £312,000, their annual allowance for pension contributions would be £4,000.

29 Pension Planning

Greater flexibility and opportunities for retirement planning are available to members of defined contribution (DC) pension schemes. This applies to those currently of pension age in respect of how they draw their retirement savings, and to current pension savers. Opportunities available include planning to reduce future inheritance tax liabilities. Some features of the regime include:

- those of normal minimum pension age (currently 55) are able to access their pension fund in full without needing to purchase an annuity.
- the first 25% of the fund will be payable tax free and the balance will be taxed as income at an individual's marginal rate of tax. Please be aware that depending on other income and the size of the pension fund, tax could be payable at the higher rates of 40% and 45%.
- people who die under 75 with DC pensions can pass on their unused pension as a lump sum, tax free.
- The maximum income drawdown limit is 150%.

If you would like to discuss potential planning opportunities, please do not hesitate to contact the person who normally deals with your affairs so that the tax implications may be considered.

Defined benefit arrangements remain subject to tighter restrictions and, as it is a strictly regulated area, advice would need to be sought from a suitably qualified IFA.

30 Protection of Pension Lifetime Allowance

The lifetime allowance for pension contributions is £1,073,100 (the rate for 2021/22 is currently unknown). If the lifetime allowance is exceeded a tax charge of up to 55% will arise when the benefits are taken.

Two protection regimes continue to be available following the reduction of the Lifetime Allowance from £1.25 million to £1 million in April 2016:

- Individual Protection 2016 (IP2016)
- Fixed Protection 2016 (FP2016).

There is no application deadline for these protections. However, individuals must apply for protection before they take any benefits. Applications for a protection reference number can be made online.

For either to apply, the value of the individual's pension funds must be at least £1million in aggregate as at 5 April 2016.

	Able to continue to make pension savings?	Protected Lifetime Allowance
IP 2016	Yes	Value of pension fund at 5 April 2016, up to £1.25 million
FP 2016	No	£1.25 million

Those with lifetime allowance protection need to take great care in relation to auto-enrolment as protection may be lost if new contributions are made.

31 Pre-Owned Assets Tax

If an individual lives in or has occasional use of a property which he previously owned, or which was purchased or constructed with the use of money provided by him, a pre-owned assets' tax (POAT) could apply unless he pays a full market rent.

Are you continuing to enjoy some use or benefit of a property or chattel which you once owned, but no longer own, or which was purchased out of money given away by you?

If so, then we can help you to consider what alternative steps might be taken to minimise the damage either from inheritance tax or POAT. If it applies to you an entry may be required on your Tax Return for the year ended 5 April 2021.

PERSONAL TAX – CAPITAL

32 Capital Gains Tax (CGT) - Annual Exemption

For 2020/21, each individual can realise chargeable gains of up to £12,300, net of losses, in aggregate, without incurring any liability to CGT. This relief cannot be carried forward if it is unused. In the absence of losses brought forward, any balance of chargeable gains is subject to CGT at a rate of either 10%, 18%, 20% or 28% (see Section **33**). Please note that these rates do not apply to companies. See Section **51** for executors and trustees.

Some clients with shares showing substantial gains may consider selling shares and purchasing shares in another company in order to make use of the £12,300 annual exemption, if it would otherwise be unused. The costs of the transaction may prohibit this where a large quantity of shares needs to be sold in order to realise a sufficient gain, but in the case of shares which have gone up markedly in value it could be worth considering.

Remember that the purchase must not be in shares in the same company within 30 days, following the abolition of "bed and breakfasting". Purchase of the same company's shares within an ISA is not disqualified, however. A more or less simultaneous purchase by one's spouse is best avoided as H M Revenue and Customs may seek to attack this using anti-avoidance legislation.

Should an asset that is going to be sold in the future be transferred into joint names? Specific advice should always be sought as the decision will depend on the circumstances.

Where gains in excess of £12,300 have been made in the current year, consideration should be given to the realisation of losses to offset such gains, e.g., by disposing of loss-making shares. Remember that gains on property and other assets can be offset by losses on shares and vice versa.

The 2021/22 CGT annual exemption is yet to be announced.

33 CGT Rates of Tax

The rates of capital gains tax for the current year are as follows:

	Gains other than those from residential property and carried interest	Residential property and carried interest
Up to the basic rate band	10%	18%
In excess of the basic rate band	20%	28%

The gain is added to the taxable income and taxed at the above rates. If the gains straddle the basic rate band, then the proportion of the gain in excess of the basic rate band is taxed at the higher rate. This is probably clearer by way of an example.

Grace's income for 2020/21 is £25,500 and after deducting her personal allowance £13,000 is taxable, and a gain on the sale of shares of £42,300. After deducting the annual exemption of £12,300 the gain is £30,000. The first £24,500 of the gain is taxed at 10% (taking income plus gain to £37,500, being the basic rate tax band limit) and the remaining £5,500 is taxed at 20%.

Business owners may be able to claim Business Asset Disposal Relief thereby reducing their effective rate of capital gains tax to 10% (see Section **41**).

34 Disposal of UK Land and Property

By UK Residents

Since 6 April 2020, any gain arising on the disposal (sale or gift) of a UK residential property must be reported to H M Revenue and Customs within 30 days of the date of completion, and any estimated capital gains tax arising on the disposal must be paid at this point. Please note that this applies to residential property only; other types of land and buildings are outside the scope of this legislation.

Capital losses realised prior to the disposal can be offset, but relief for losses after the completion date can only be obtained upon submission of the Self Assessment Tax Return for the year of the disposal. Tax rates of 18% and 28% apply to the disposal of residential property, depending on whether the individual is a basic or higher rate taxpayer. Therefore, careful consideration should be given to the timing of disposals. A Return is not required if no payment on account is due.

By Non-UK Residents

Non-UK residents must report any disposal of UK land and property to H M Revenue and Customs within 30 days of the date of completion of the sale. Please note that all types of UK land and property are captured.

For unincorporated persons, a Non-Resident Capital Gains Tax (NRCGT) Return must be made to H M Revenue and Customs within 30 days of completion. A Return must be submitted even if:

- There is no tax to pay;
- A loss was made;
- The non-resident is registered for Self Assessment

Tax rates of 18% and 28% and any capital gains tax (or corporation tax in the case of companies) must be paid within 30 days of completion (see Section **40** regarding the payment of capital gains tax).

35 Permanent Separation and Divorce

Although the subject is an unpleasant one, it cannot be brushed under the carpet.

Usually, it is possible for married couples to transfer assets between each other at a no gain loss position; the spouse receiving the asset it deemed to acquire it at the base cost of the spouse gifting it.

In the case of married couples that are separating, this exemption ceases upon the end of the tax year during which the permanent separation took place. Consequently, the date of separation and the date of the transfer/sale of assets become of vital importance. If you are in this situation, please contact us before making any decisions regarding the disposal of assets so that we can try and obtain the most tax-advantageous result for you.

36 Capital Gains Tax on Second Homes

Where a taxpayer has more than one residence it is possible to nominate the main residence for Principal Private Residence (PPR) purposes.

A non-resident cannot designate a UK property as his PPR in a tax year unless he spends at least 90 days in it during the year. However by doing this, his non-resident status could be affected. The rule was introduced to ensure that non-residents could not side step the capital gains tax charge by designating their UK property as a tax-exempt main residence.

These rules also apply to UK residents disposing of residential property located outside the UK.

37 Annual Tax on Enveloped Dwellings (ATED)

ATED is an annual tax payable by non-natural persons (e.g. companies, partnerships, etc.) that own UK residential property. The ATED charge for the 2021/22 period is based on the property's value as at 1 April 2017. A revaluation is required every 5 years and so will be required on 1 April 2022. There are various exemptions to the tax, for instance when let on a commercial basis to a third party, or being developed for resale by a property developer.

If the UK residential property was valued at more than £500,000 on 1 April 2017, or at acquisition if later, the property owner will be subject to the ATED charge and will be required to complete an annual Return by 30 April during the tax year. The Returns for 2021/22 are due for submission by 30 April 2021.

For newly acquired properties an ATED return and payment is due within 30 days of acquisition.

38 Stamp Duty Land Tax on Let Properties and Second Homes

Higher rates of stamp duty land tax (SDLT) are charged on purchases of additional residential properties, such as buy to let properties and second homes. The increased rates do not apply to purchases of non-residential property nor to properties used for both residential and non-residential purposes. The higher rates are 3% above the current SDLT rates but will not apply if at the end of the date when the purchase is completed, an individual owns only one residential property even if it is not their main home. The higher rate still applies if you own a home overseas and buy an additional residential property in the UK.

One complication is the scenario where the property being purchased is intended to replace your current main residence which has not yet been sold. The transaction would be subject to the higher rates of SDLT, but a refund could be claimed if the previous main residence is sold within 36 months. Please contact the person who normally deals with your affairs if you would like our assistance in claiming the refund.

SDLT Returns must be submitted and the tax paid within 14 days of completion.

39 Principal Private Residence (PPR) Relief Issues

The first point to emphasise is that if you are selling your house which has always been lived in as your sole residence, and never let, then generally the gain is exempt from capital gains tax and there is no need to worry about the changes.

There is a final period exemption regardless of whether you are occupying the property or not during that time. With effect from 6 April 2020, the PPR exemption for the final period of ownership was reduced from 18 months to 9 months.

There may be periods which can be counted as periods of deemed occupation, despite you being physically absent from the property, such as moving away or working overseas. Deemed occupation is only possible where you have no other residence eligible for PPR. The rules are very specific and if you think that this may apply to you then please seek our advice.

Lettings relief has also historically been available where a property which qualifies for private residence relief has also been let in a period of absence. However, from 6 April 2020 lettings relief will only be available if there is shared occupation (i.e., the owner and the tenant both live in the residence at the same time), thereby, in practical terms, effectively abolishing lettings relief.

40 Payment of Capital Gains Tax (CGT)

Residential Property Disposals by UK Residents

As mentioned in Section **34**, with effect from 6 April 2020, where there is tax payable upon the sale or gift of residential property, a Return will have to be made to H M Revenue and Customs (HMRC) and CGT paid within 30 days of completion.

All Land and Property Disposals by Non-UK Residents

As mentioned in Section **34** a NRCGT Return must be made to HMRC within 30 days of the completion of the sale of any UK situs land or property and the capital gains tax must be paid at this point.

For Other Disposals

HMRC have also introduced a real time CGT online service for reporting capital gains and losses. This enables any CGT due to be paid immediately. The service is designed for people who do not want to get drawn into the Self Assessment system but need to report a one-off gain. However, it is an entirely voluntary system and can be used by any individual. The downside is that the tax is due to be paid immediately whereas under Self Assessment there can be a delay of up to 22 months before the tax becomes payable. Please let us know if you have made use of this system as the reference number of the real time transaction Return must be declared on your Self Assessment Tax Return.

41 Capital Gains Tax Reliefs

Business Asset Disposal Relief

Previously known as "Entrepreneurs' Relief", Business Asset Disposal Relief reduces the amount of capital gains tax on a disposal of qualifying business assets to a flat rate of 10% as long as the relevant conditions have been met. The relief is subject to a lifetime limit of £1 million (reduced from £10 million for disposals on or after 11 March 2020).

If you are contemplating the sale of an interest in a business in the future and wish us to consider the availability of Business Asset Disposal Relief, then please contact us as soon as possible.

We say this because it is very important to distinguish between the sale of a business or part of a business, and the sale of an asset used in the business. For example, a farmer who farms 250 acres and sells 5 acres for development will not obtain the relief if he carries on farming the 245 acres. He has merely disposed of an asset used in the business, not a part of the business itself.

To qualify as your personal company, you must have held at least 5% of the ordinary share capital and 5% of the associated voting rights. You must also have a right to 5% of the net assets of the company in a winding up and to 5% of its distributable profits and to 5% of the proceeds in the event of a disposal of the whole share capital of the company.

All the qualifying conditions must be met for at least two years ending with the date of disposal or cessation of trading.

Careful consideration of the circumstances in advance of the disposal, may make it possible to structure transfers in some instances so that relief is obtained. For example, by bringing a spouse/civil partner into the business, or by transferring shares in a business to your spouse/civil partner the lifetime limit may be doubled. Family members could also be brought into the business. However, great care must be taken to ensure that they meet the conditions for relief otherwise you may end up in a worse position.

Investors' Relief

Investors' Relief is an extension of Business Asset Disposal Relief and allows gains arising to be taxed at 10% if they relate to ordinary shares acquired for consideration and held for a period of at least 3 years by individuals in unlisted trading companies. The relief will not usually be available if the individual is an officer or employee of the company in which the shares are acquired.

Special identification rules will operate to maximise the potential tax relief available. These identification rules are complex and care will need to be taken. A person's qualifying gains for Investors' Relief will be subject to a lifetime cap of £10 million.

With careful planning, it may be possible in certain circumstances to benefit from both Business Asset Disposal Relief and Investors' relief.

42 Inheritance Tax - Exemptions for Lifetime Gifts

Most straightforward gifts of any value can be made completely free of inheritance tax provided the donor lives for 7 years after making the gift and does not reserve any benefit whatsoever in respect of the gifted property. These are known as Potentially Exempt Transfers or PETs. Such gifts should however only be made after consultation with us and your solicitor in order to ensure that all relevant factors including possible capital gains tax consequences are taken into account. In addition, the following gifts may be made for 2020/21 without using up any part of an individual's inheritance nil rate band:

a) Small gifts of up to £250 to each of as many individuals as the donor wishes to benefit. This allowance cannot be used to cover part of a gift or gifts totalling more than £250 to the same individual during the period 6 April 2020 to 5 April 2021 inclusive.

b) Annual gift allowance of up to £3,000 for 2020/21. This exemption is applied to larger gifts not covered by a) above. It can be carried forward for one year only to 2021/22 if unused.

c) Annual gift allowance for 2019/20 of up to £3,000 to the extent that it was not fully utilised in that year. Any balance unused at 5 April 2021 cannot be carried forward to 2021/22.

d) Gifts that are a wedding or civil partnership gift worth up to:
   - £5,000 to a child
   - £2,500 to a grandchild or great grandchild
   - £1,000 to anyone else.

   The gift must be made on or shortly before the wedding date.

e) Gifts to charities in the UK or EEA, museums, universities, political parties, housing associations, national heritage bodies or community amateur sports clubs.

The reliefs under a), b) and c) must be used in the order shown and are available separately to each spouse.

Furthermore, recurring gifts which form part of normal expenditure out of surplus net income may be made in addition to the above. This can be an extremely important relief that is often overlooked.

You must however maintain careful records of your gifts and expenditure in order for your executors to be in a position to prove that you were able to maintain the same standard of living after making the gifts. If your Income Tax Returns and tax calculations are retained, clearly they will go a long way to providing details of your taxable income.

Failure to keep clear and concise records could lead to high professional costs and/or

loss of relief. We can provide an example of the information required by H M Revenue and Customs as part of the inheritance tax account (form IHT 403) upon request.

43 Inheritance Tax Planning for Widows and Widowers

The nil rate band for inheritance tax is currently £325,000 and it has been frozen at this threshold until April 2021. At the time of writing, the threshold for deaths on or after 6 April 2021 has yet to be announced.

Clients are reminded that on the death of a surviving spouse, a claim may be made for the available nil rate band on the second death to be increased by the unused proportion of the nil rate band of the spouse who died previously.

It will, therefore, be important to have access to the paperwork associated with your spouse's estate. You should ensure that all records relating to your late spouse's estate are retained for the foreseeable future and copies of important documents placed with your own Will.

44 Residence Nil-Rate Band (RNRB)

This additional nil-rate band is available when a residence is passed on death to a direct descendant. The allowance is currently £175,0000.

The RNRB may be transferrable where the second spouse of a couple dies irrespective of when the first of the couple died. The claim must be made within two years of the end of the month of the second spouse's death.

It doesn't need to be the main residence, and the individual doesn't need to be living in the property at the time of death. It suffices that it had been occupied as the individual's residence at some point.

The RNRB may also be available to an individual if they have downsized to a less valuable residence or have ceased to own a home on or after 8 July 2015. This applies where the new home or, if the individual has ceased to own one, assets of an equivalent value up to the value of the additional nil-rate band, are passed on death to direct descendants.

From 6 April 2021, the RNRB will be increased annually in line with the Consumer Prices Index. It will be withdrawn on a tapered basis for estates with a net value of more than £2 million (meaning assets less liabilities but ignoring exemptions and reliefs). Careful planning may help to preserve entitlement to the RNRB, as it is not safe to assume that there is no loss of the RNRB if everything is left to the surviving spouse. Consideration should be given to whether lifetime gifts or additional gifts on the death of the first spouse through deeds of variation, may reduce the estate accordingly.

Your Will may need to be reviewed, and individual circumstances considered to ensure that this relief is maximised.

45 Inheritance Tax - Reduced Rate for Estates Leaving 10% or more to Charity

If at least 10% of the net value of an individual's estate is left to charity, then the rate of inheritance tax will reduce from 40% to 36%. If the amount left to charity is less than 10% of the net value of the estate although the rate of inheritance tax won't be reduced, the donation will be taken off the value of the estate before inheritance tax is calculated

TRUSTS AND ESTATES

46 Discretionary Trusts – General

In calculating income tax on a discretionary trust, a standard rate band is available. Where the settlor has created more than one Trust, the standard rate band is shared between the number of Trusts in existence in the tax year, which have been created by the same settlor; where only one trust exists, it is £1,000.

The tax rates for 2020/21 are:

	Dividend Income	Other Income
Income within standard rate band	7.5%	20%
Income in excess of standard rate band	38.1%	45%

Distributions of income by trustees of discretionary trusts are treated as received net of tax deducted at the higher rate of 45% and that tax must already have been borne by the trustees. The tax can be covered by a 'tax pool' comprising tax already paid by the trustees in 2020/21 and earlier years where not previously utilised. Most beneficiaries, other than those who have taxable income of over £150,000, are therefore likely to be in a position of needing to reclaim tax on any distributions made to them from a discretionary trust.

The following allowances do not apply to discretionary trusts:

- dividend allowance (section **5**)
- personal savings allowance (section **3**)

Consideration could be given to appointing an interest in possession to the beneficiary to avoid the additional tax and, potentially, benefit from the dividend allowance and the personal savings allowance.

47 Estates in Administration

Tax at a rate of 7.5% on dividend income and 20% on any other income that arises is payable by the persons administering a deceased person's estate.

H M Revenue and Customs have clarified its guidance on when an estate must register for Self Assessment:

- Where the only income is interest and the tax due is less than £100, this does not need reporting to HMRC at all;
- If the tax due is more than £100 but less than £10,000 for a year, write to HMRC who will reply with a payslip with which to pay the tax;
- where the probate value of the estate is more than £2.5 million or the total tax due exceeds £10,000, or the assets sold in one year exceed £500,000, the estate should register with HMRC for Self Assessment.

48 Interest in Possession Trusts

Tax Returns need to be filed for Interest in Possession Trusts unless any income received is mandated directly to the beneficiary, when it must be declared on their own Tax Return.

Trustees have to pay 7.5% tax on dividend income and basic rate tax (20%) on all other income including bank and building society interest.

Trustees do not need to file a Tax Return where the only source of income is savings interest and the tax liability is below £100. Subject to this de minimis exception trustees must complete a Return, even if one has not been issued, if they have received untaxed income or realised chargeable gains that are not reported on any other return, unless there is no tax liability.

49 Discretionary Trusts – Making Use of Normal Expenditure out of Income

The transfer of property into a discretionary trust is a chargeable lifetime transfer for inheritance tax purposes. This isn't a problem if the amount settled into trust does not cause the settlor's nil rate band (currently £325,000) to be exceeded, as no inheritance tax will be due. Otherwise a 20% entry charge will occur. If business or agricultural assets are transferred into trust, then the use of Business Property Relief or Agricultural Property Relief will avoid the 20% entry charge.

Another possibility to avoid the 20% entry charge is to make use of the normal expenditure out of income exemption.

The expenditure must be:

(i) part of the normal expenditure of the donor;
(ii) made out of income (taking one year with another);
(iii) leave the donor with sufficient income to maintain his usual standard of living.

This could lead to some significant savings for those with surplus income who wish to put monies into trust (see also Section **42**).

50 Discretionary Trusts – Accumulations of Income

Care should be taken by trustees if the trust is approaching a ten-year anniversary and there is undistributed income within the trust.

Any income which has been formally accumulated by the trustees is treated as an addition of capital to the trust and so must be taken into account when considering the 10-year charge. These accumulations are treated as additions at the time the trustees formally decide and the inheritance tax due is time-apportioned between the date it was added as capital and the date of the 10-year charge.

However, any accumulations of income which have not been formally authorised and arose more than five years before the 10-year anniversary date will be treated as relevant property and taken into account when calculating the charge. Unlike the formal accumulations, these unauthorised accumulations will be added to the relevant property calculation but will not be time-apportioned, in effect, being taxed in full rather than being time-apportioned.

Where there have been income receipts and distributions to beneficiaries, these are dealt with on a first in, first out (FIFO) basis.

We would recommend that where there is a ten-year anniversary approaching, the trustees may wish to consider making income distributions of any income which arose more than five years ago. Alternatively, they could formally accumulate just before the ten-year anniversary to minimise the inheritance tax charge.

51 Capital Gains of Trusts and Estates – Rates of Tax and Annual Exemption

The rate of capital gains tax for trustees and executors in 2020/21 is:

- 28% for disposals of residential property ;
- 20% for all other disposals (or 10% where Business Asset Disposal Relief applies).

The estate of a deceased person continues to benefit from the annual exemption applicable to an individual (currently £12,300) for the year of death and the two subsequent tax years. Thereafter, there is no exemption for the estate.

The standard annual exemption for a trust is £6,150 for 2020/21, but this may be reduced where the same individual has set up more than one trust. This includes trusts relating to life assurance policies.

52 Deceased Persons' Estates - Income Distributions

Executors and beneficiaries of the estates of deceased persons are reminded that, in many circumstances, the income of a beneficiary from an estate for a particular tax year will be determined by the amount paid to the beneficiary in that year. Accordingly, the executors have some scope for determining the period in which estate income is assessed.

This could have implications for beneficiaries with unused personal allowances and those with higher rate tax liabilities in one year, but not in another. Executors should therefore review the position in order to see whether any income distributions should be made by 5 April 2021, or possibly deferred until after 5 April.

53 Trust Registration Service (TRS) Penalties

Trusts are required to register under the TRS and notify any change of information by 31 January after the end of the tax year in which a liability arises on trust assets or income. Fixed penalties will be charged by H M Revenue and Customs to reflect the period of delay.

If you complete a Trust Tax Return, there is an obligation to tick a box which confirms that you have accessed the Trust Register and either updated the details of the Trust, or confirmed that the Trust Register is up to date.

A liability is not limited to an income tax or capital gains tax liability, but also includes other taxes such as inheritance tax and stamp duty land tax. Therefore the Trustees may find they have an obligation to access the Trust Register, even if a Trust Tax Return is not due.

If you require any assistance with this, please contact the partner who deals with your affairs.

54 Probate Services

We were one of the first accountancy practices in the area to be licensed to provide probate and estate administration services to our clients. It seems to be working well as when the death occurs, we already hold a lot of detail about the deceased's financial affairs.

Where we know that you would like us to deal with your probate and estate administration, we can ensure that we collect a little more information on an ongoing basis regarding investments which aren't taxable, such as ISAs, premium bonds etc., as well as lifetime gifts. It just makes life slightly simpler for those you leave behind.

We can offer a bespoke service tailored to fit your requirements and our charges will be at our normal rates based on the time taken to deal with matters. We can deal with the whole of the grant of probate application process and administration of the estate or we can take a step back and assist the executors as and when required. If you would like further information regarding this service, then please contact the partner who deals with your affairs.

BUSINESSES

55 Employment Allowance for Class 1 National Insurance Contributions (NICs)

The employment allowance allows eligible employers to reduce their annual Class 1 NIC bill, by up to £4,000.

It is only available to 'small' businesses, i.e., those with an NIC bill of less than £100,000 in the previous tax year.

Employers who have not claimed for previous years can submit late claims up to four years after the end of the tax year.

56 National Minimum Wage/ National Living Wage

The National Minimum/National Living Wage (NMW/NLW) will increase for pay reference periods starting on or after 1 April 2021 as follows:

Age	Rate per hour
23 and over (previously 25 and over)	£8.91
21 – 22	£8.36
18-20	£6.56
Between school leaving age and 18	£4.62
Apprentices aged under 19	£4.30
Apprentices aged 19 and over but in the first year of their apprenticeship	£4.30

Directors of their own companies are not bound by the NMW/NLW legislation if they are merely paid for their role as an office holder of the company. However, if they have an employment contract with their company, they are deemed to be an employee for NMW/NLW purposes, and the NMW/NLW should be paid for all hours worked.

57 Workplace Pension Contributions

Workplace pension schemes must, under auto-enrolment rules, receive a total minimum level of contributions on behalf of each employee enrolled in the scheme.

The total minimum contribution from employers and employees is 8%.

The employer must contribute at least 3% with the balance being contributed by the employee.

58 Professional Bureau Payroll Service

Pearson May have been operating a payroll service for many years and have a very experienced team in our payroll department.

If you are responsible for running a payroll and operating PAYE/NIC in respect thereof, you may care to use our payroll service. This will remove the increasingly onerous obligations for Real Time Processing and Auto-Enrolment from you and also enable you to maintain a high degree of confidentiality.

We would be pleased to provide further details of the service, including a quotation based on the number of employees and frequency of salary payment.

59 Tax-Free Childcare Scheme

A Tax-Free Childcare scheme is available to you and your partner if you are in work and each earning at least the National Minimum Wage or Living Wage for 16 hours a week. The scheme provides tax relief at 20% on childcare costs of up to £10,000 per child. Your childcare provider must be registered with Ofsted and have signed up for the scheme. Your child ceases to be eligible for the scheme on 1 September after their 11th birthday. The scheme is also available to the self-employed. The scheme is not available if the annual income of the parent or their partner is more than £100,000 or if certain benefits are being claimed.

60 Payroll Changes

Arrangements under salary sacrifice schemes involving cars, employer-provided accommodation and school fees are protected until 5 April 2021. After this date, they will be subject to the same tax as cash income under the optional remuneration arrangements.

Arrangements which can still be dealt with by way of salary sacrifice include contributions to a registered pension scheme; childcare vouchers up to £55 per week; and bicycles. Arrangements such as buying additional holiday also qualify.

61 Termination Payments

Where an employment was terminated after 5 April 2020, for all termination payments made in excess of the £30,000 exemption, Class 1A National Insurance Contributions (NIC) are payable by the employer. This is a fundamental change in the nature of Class 1A NIC; previously Class 1A NIC only arose on benefits in kind taxed as earnings. The charge to Class 1A NIC on termination payments will be calculated, reported and paid over in real time, whereas the Class 1A NIC due on benefits in kind will continue to be reported and paid after the end of the tax year.

If the termination payment is subject to Class 1 NIC then, to avoid a double charge to NIC, Class 1A NIC will not be due.

62 Company Car and Van Benefit

Cars – Electric and Hybrid

The benefit of having a company car is calculated as a percentage of the vehicle's list price when new. The percentage used depends on CO2 emissions and the date of registration:

Date of registration	Applicable percentage rate
On or before 5 April 2020	NEDC
After 5 April 2020	WLTP

The NEDC is the historical method used. As of 6 April 2020, the UK adopted the Worldwide Harmonised Light Vehicle Test Procedure (WLTP) to establish the CO2 emissions figures for all new cars registered from 6 April 2020.

The following table gives a brief overview of the difference between the percentages to be applied to the list price under both methods, for petrol and hybrid cars, for 2020/21:

CO2 emissions g/km	Electric mileage range	NEDC %	WLTP %
0 to 0		0	0
1 to 50	130 and above	2	0
1 to 50	70 to 129	5	3
1 to 50	40 to 69	8	6
1 to 50	30 to 39	12	10
1 to 50	less than 30	14	12
Continuing to…			
160		37	35
165		37	36
170 and above		37	37

Most of the applicable percentages for 2021/22 are not currently known.

Cars - Diesel Cars
Whilst diesel cars tend to have lower CO2 emissions than petrol-powered vehicles of a similar engine size, they also emit more harmful particles, so a diesel supplement is added to the percentage of list price to increase the taxable benefit of using a diesel company car.

Generally, a 4% supplement is added for diesel vehicles, up to a maximum percentage of 37%.

Vans
The benefit of using a company van for private journeys, other than ordinary commuting, will be taxed at a flat rate. The rates for 2020/21 are as follows:

- Petrol and diesel: £3,490
- Electric: £2,792

The benefit in kind for petrol and diesel company vans for 2021/22 is £3,500. For zero emission models, the benefit in kind figure is expected to be zero.

63 Off-payroll working / IR35

Changes to the off-payroll working rules were originally intended to come into force from 6 April 2020. However, due to the effects of the Covid-19 pandemic, the measures were delayed until 6 April 2021.

From 6 April 2021, medium and large organisations in all sectors of the economy will become responsible for assessing the employment status of individuals who work for them through their own limited company (known as a "Personal Service Company" ["PSC"]). Where the rules do apply, the organisation, agency, or other third party (the 'Engager') paying the worker's PSC will need to deduct income tax and employee NICs and pay employer NICs. These reforms were introduced in the public sector in 2017, but now extend to Engagers which are medium and large organisations in the private sector. Previously, the onus had been on the PSC to determine the status of the business relationship, but that burden has now shifted to the organisation engaging the PSC. For Engagers which are small companies within the private sector, the position remains unchanged.

If you are concerned that your business now falls within the scope of off-payroll working, please consult the partner who manages your affairs for further information.

64 Corporate Structure versus Sole Trader

The decision to operate through a limited company or as a sole trader will have a bearing on the extraction of business profits and taxes and NIC payable. In some circumstances, there are some tax advantages to operating through a company, for example:

- Utilising the dividend nil rate band each year (see Section **5**);
- Extracting funds via a directors' loan account;
- Maximising tax efficient profit extraction, for example pension contributions, salary sacrifice (see Section **60**) etc;
- Charging interest at a commercial rate on a loan by a director to the company (see Section **71**).

If you would like to explore the possibility of whether a corporate structure would suit your needs, please contact us.

GENERAL

65 *Making Tax Digital (MTD)*

For some businesses, MTD for VAT has now been in place for nearly two years.

Most VAT-registered businesses with a taxable turnover above the VAT registration threshold (currently £85,000) are already required to follow the MTD rules by keeping digital records and using compatible software to submit their VAT returns.

Where businesses use more than one piece of accounting software there must be a digital link between them. From 1 April 2021 this requirement becomes mandatory after an initial soft landing period to allow businesses time to adjust. The use of 'copy and paste' will no longer be acceptable within the accounting records.

VAT-registered businesses with a taxable turnover below £85,000 will be required to follow MTD rules for their first VAT return starting on or after April 2022.

The extension of MTD to other businesses has been postponed until:

Category	Postponed until at least:
Self employed businesses not already registered for MTD, with an income above £10,000	April 2023
Landlords with property income in excess of £10,000.	April 2023
Corporation tax	April 2026

66 *Changes to the Capital Allowances Regime*

Structures and Buildings Allowances

Structures and Buildings Allowances (SBAs) can be claimed on eligible construction costs incurred on or after 29 October 2018 for new non-residential structures and buildings. From 6 April 2020, they will be given at a straight-line relief of 3% for 33 1/3 years. Claims can only be made after the new structure or building is brought into use for a qualifying activity.

Annual Investment Allowance

The Annual Investment Allowance (AIA) currently covers the first £1m of qualifying expenditure. It was originally intended to revert to £200,000 after 31 December 2020 but this has now been delayed until 1 January 2022.

Special Rate Pool

The special rate pool applies to 'integral features' in a building, items with a long life of at least 25 years from new, thermal insulation of buildings and cars with CO2 emissions of more than 110g/km (reducing to 50g/km in April 2021). The writing down allowances which can be claimed on the special rate pool is 6%.

First Year Allowances for Business Cars

It was originally intended that the 100% first year allowances for zero-emission cars and zero-emission goods vehicles would cease in April 2021. However, in the 2020 budget, the government announced that this would be extended by four years until April 2025.

67 *Corporation Tax Rates*

In the March 2020 budget, the government announced that the main rate of corporation tax would remain at 19% for the years starting 1 April 2020 and 1 April 2021.

68 National Insurance Contributions (NICs)

Employees

Employees may earn up to £170 per week or £737 per calendar month without either them or the employer incurring liability to Class 1 NICs. This will be of particular interest to clients who employ spouses or other part-time employees. The employees concerned should consider whether it is in their best interests to avoid paying NICs having regard to probable loss of state benefits. Having said that, pay in the range of £120 per week to £170 per week would appear to gain a credit for NIC retirement pension purposes without resulting in any payment of contributions by the employee.

A 'Starter Checklist' procedure should be followed even if no tax or NIC liability is anticipated. The business would also need to operate a PAYE scheme in order to achieve a credit for NIC retirement pension purposes.

As previously, wages of spouses or other family members should be capable of justification in commercial terms having regard to the work which they perform. Care should be taken to ensure that such wages are actually paid and recorded separately from other payments, e.g., housekeeping monies, pocket money or gifts.

Class 2 NICs were £3.05 per week from 6 April 2020 and are expected to remain at this rate for 2021/22. Those earning less than £6,475 p.a. for 2020/21 (expected to rise to £6,515 for 2021/22) do not have to pay Class 2, but may wish to consider voluntarily paying, to preserve pension entitlement and certain other State Benefits.

In addition, the self-employed will be liable to Class 4 NICs at the following rates:

	2020/21 Earnings in the band	2021/22 Earnings in the band
At 9%	£9,500 - £50,000	£9,568 - £50,270
At 2%	Above £50,000	Above £50,270

Newly Self-Employed?

Make sure you register for income tax and national insurance purposes with H M Revenue and Customs (HMRC) when you become self-employed. If you require our assistance, then please let us know. You will receive a penalty from HMRC if you send your Self Assessment Tax Return or pay your tax late. You may also be fined if you register after 5 October following the end of the tax year for which a Tax Return is due and do not pay your tax bill in full by the deadline or if you don't register at all.

If your Class 2 NICs do not appear on your Self Assessment calculation or on Online Services, it may be for a variety of reasons. However, you should ensure that you registered to pay Class 2 NICs when you became self-employed.

69 National Insurance - Credits Towards Additional State Pension

In recent years, the general trend has been to favour taking surplus profits from owner managed businesses out in the form of dividends rather than remuneration and bonus, largely due to the relatively high rates of national insurance contributions (NICs). The additional tax rates (for earnings and dividends) and the hike in employers/employees NIC has increased the cost of extraction for the most successful owner managers.

One should, however, remember that tax is not the only consideration. The opportunity for the individual to make pension contributions will be restricted if remuneration is low. Employer contributions are not subject to the same restriction. Other limits do however apply.

Another consideration is the effect of receiving dividends in place of earnings on eventual entitlement to the State retirement pension. As mentioned in Section **68** above, pay in the range of £120 per week to £170 per week in 2021/22 gains a credit for State pension purposes without there being any liability to pay Class 1 NICs.

The full new state pension which applies to those now reaching state pension age will be £179.60 per week for 2021/22 and you will usually need 10 qualifying years to get any new state pension, and 35 qualifying years to receive a full pension and therefore paying Class 2 NICs may be important in this respect.

Consideration can also be given to the payment of Class 3 voluntary NICs to fill any gaps in your NICs record for pension purposes.

70 Sole Proprietors and Partnerships – Having a Bad Year?

Under Self Assessment you will be assessed to income tax for 2020/21 on the basis of profits earned in your accounting year ended in the year ended 5 April 2021. Assuming an accounting date which coincides with the end of a calendar month, this could be the year ended 30 April 2020 at the earliest, or the year ending 31 March 2021 at the latest.

If you have a 31 March year end, this paragraph will be of no concern to you, but, if, for example, you have a 30 April year end and it looks as though the year ending 30 April 2021 will be much worse than the year ended 30 April 2020 you need to consider whether you should bring forward your year end and make up accounts to say, 31 March 2021, or to another date ending in the year ended 5 April 2021.

This could be even more relevant if you are thinking of ceasing to trade in the near future.

Individual partners in a partnership are assessed individually based on when they join or leave the partnership; the partnership is not an individual entity.

If you think a change to your accounting date may assist you, please have an early word with the partner/member of staff responsible for your affairs, as the general principle set out above will not necessarily apply to every situation.

71 Having a Good Year – Extraction of Profits

It is important that profit extraction strategies are reviewed on a regular basis to take into account changes in circumstances and in tax rates and rules.

The payment of a salary is an allowable expense for corporation tax purposes but may be liable to income tax and national insurance contributions (NICs) depending on the amount involved. To retain state pension and benefit entitlement, a small salary should be paid that falls between the lower earnings limit and the primary earnings threshold for NIC purposes (see Section **68**). Consideration could also be given to the remuneration of family members. However, it is necessary to be mindful of the requirements regarding the National Minimum Wage and National Living Wage (see Section **56**). If a spouse is not fully utilising their personal allowance, consideration should be given to making a claim for the Marriage Allowance (see Section **2**).

Owners of businesses will normally require an ongoing income stream from their company to fund their day to day living expenses. Generally, the most tax efficient way will be to take a small salary and then give consideration to the payment of dividends. Dividends are paid out of post-tax profits and have to be paid in relation to shareholdings in the company. However, different classes of shares can be created for each shareholder, allowing different dividends to be declared for each class of shares. Dividend waivers need to be used with caution and advice should be sought.

Dividends of up to £2,000 per annum are covered by the dividend allowance (see Section **5**). It is worth ensuring that assets are split between spouses and civil partners to make the most of combined allowances.

Planning should be undertaken to ensure that your basic rate band and those of family members are fully utilised but be mindful of anti-avoidance provisions.

A range of benefits and expenses can be paid without triggering a tax or NIC charge and creating a corporation tax deduction for your company.

The pension tax regime provides opportunities for the extraction of funds in an efficient manner (see Section **26**).

Where a shareholder has a credit balance on his loan account in his company, opportunities exist for paying interest. The first £1,000 of interest will be covered by the personal savings allowance (subject to other income) and therefore free of tax for a basic rate taxpayer (see Section **3**). A company paying loan interest to an individual must still deduct tax at source from that interest and pay it over to H M Revenue and Customs.

Please contact us for further information on any of the points in this section.

72 Money Laundering Regulations

We may, from time to time, have to request some longstanding clients to provide passports and an up-to-date utility bill for their private residence or a bank statement. This will be for the purposes of keeping our own records up to date and complying with the legislation. We apologise for any inconvenience that this may cause but we will do all that we can to minimise the occasions when this becomes a requirement.

We have communicated previously about some of the issues which can arise and can trigger the ‘proceeds of crime’ reporting obligation aspects of this legislation. This can include:

(a) monies received twice by a business from a customer in error, when the overpayment is not repaid or the customer’s agreement to it being carried forward is not obtained.

(b) VAT errors identified by us during our work on annual accounts which are not corrected within a reasonable time of our pointing out the details.

(c) a benefit obtained by an individual through fraud or theft.

(d) benefits (in the form of saved costs) arising from a failure to comply with a regulatory requirement where that failure is a criminal offence.

This is far from an exhaustive list, of course.

73 Brexit

The UK officially left the European Union on 31 January 2020 and entered a transition period which expired on 31 December 2020.

New VAT and customs rules for trading with the EU came into force on 1 January 2021. The detail of these is beyond the scope of this publication, but if you have EU suppliers or customers then it is essential that you are abreast of the new rules. If you would like any assistance in understanding the new rules, please contact the partner responsible for your affairs.

We are also receiving requests from clients who have bank accounts in the EU; some of the banks are now asking for additional information about the individual’s affairs in order for the account to remain open. If you find yourself in this position, please do not hesitate to get in touch if you require any assistance in dealing with the paperwork.

CORONAVIRUS MEASURES

The full range of coronavirus measures put in place by the government to support the economy during the coronavirus pandemic are beyond the scope of this publication, however the points listed below are those we feel are most pertinent to the widest range of our client base.

74 Self Employed Income Support Scheme (SEISS)

Self employed individuals and members of partnerships who were adversely affected by the Coronavirus crisis were able to claim a taxable grant worth up to 80% of their average trading profits from the last three tax years, subject to a maximum amount. The scheme was initially set to run for three months but as the course of the pandemic unfolded, the Chancellor has amended the scheme several times.

Any grants received are taxable, and subject to National Insurance Contributions and so will need to be included on your Tax Return for the year ended 5 April 2021.

The third iteration of the scheme, announced in November 2020, is more restrictive than the first two schemes. For example, under the first two schemes, businesses could claim if they had experienced increased costs of having to buy protective equipment. Under the third scheme, H M Revenue and Customs have stated that a claim cannot be made if the only impact is increased costs.

If you are in any doubt about any claims, you have made under the SEISS then please contact the partner responsible for your affairs.

75 Coronavirus Job Retention Scheme (CJRS)

On 20 March 2020, the Government announced measures to support employers who were adversely affected by coronavirus and to help them retain their employees and protect the UK economy. Originally intending to end on 31 October 2020, the CJRS has been extended several times, and the current scheme is due to end on 30 April 2021.

The Government had intended to pay a one-off job retention bonus payment of £1,000 to UK employers for every furloughed employee who remained in continuous employment until 31 January 2021, provided the employee had sufficient average monthly earnings.

However, following the extension of the CJRS, this has been postponed and the government have said that the retention incentive will be paid at the appropriate time.

If any amounts have been overclaimed in respect of the CJRS then these should be rectified as soon as possible. H M Revenue and Customs have published a factsheet which sets out the potential penalties which may be charged if overpayments are discovered by H M Revenue and Customs.

76 Working From Home Allowance

There has been much coverage in the press regarding the ability to claim a working from home allowance if you are working from home. Historically, if an employee has chosen to work from home then they are not allowed to claim tax relief for homeworking expenses; the working from home allowance only applies if you are required to work at home by your employer.

When the country was in lockdown last Spring, many employees found themselves forced to work at home because their places of work were closed. Under this scenario, those working from home would be eligible to claim the working from home allowance for the period(s) when they were forced to work at home.

In order to ease the administration burden, H M Revenue and Customs have stated that if you are required to work at home for part of 2020/21, then a claim can be made for the whole tax year, rather than it being apportioned to the period where you were forced to work at home. Therefore, it is possible to claim relief for the whole tax year, even if you were not working at home for the full period.

The working at home allowance for 2020/21 is £6 per week, therefore anyone eligible to claim the allowance is entitled to an amount of £312. This would result in the following refunds:

	Tax saving
Basic rate tax payer	£62.40
Higher rate tax payer	£124.80
Additional rate tax payer	£140.40

If your employer has reimbursed you for any expenditure for working from home, then this will need to be taken into account when calculating the claim. It will therefore be necessary to check each of your payslips.

If you do not complete a Self Assessment Tax Return, then the government has set up a portal to enable claims to be made online:

https://www.gov.uk/tax-relief-for-employees/working-at-home

If you believe you have higher increased costs than £6 per week, you can claim more but you will need evidence of the cost increases.

77 Tax Returns for the year ended 5 April 2020

With less than a week until the 2019/20 filing deadline for Self Assessment Tax Returns, H M Revenue and Customs announced that it would not charge the £100 late filing penalty for Tax Returns filed after 31st January, provided that they were received by 28th February. However, the tax due still needed to be paid by 31 January and therefore interest will be accruing on any unpaid tax. Any clients who have yet to submit their 2019/20 Tax Returns are therefore reminded of the need to do so, to avoid incurring a late filing penalty of £100.

In order to support taxpayers who may struggle to pay their Self Assessment tax liability, H M Revenue and Customs have also set up a "Time to Pay" service. If you have yet to pay the tax liability that was due on 31st January 2021, then please contact the partner who deals with your affairs for more details of the Time to Pay scheme. You will not be eligible to apply unless your Tax Return has been submitted.

78 Company Cars

It is highly likely that lots of people did not drive their company cars during lockdown. However, the benefit in kind for the company cars will not be reduced for this period because H M Revenue and Customs would argue that the car was still available for use, even if opportunities to use it were severely limited.

If the employee returned the keys to their employer during the lockdown period, then H M Revenue and Customs would concede that the car was not available to them for private use and a benefit in kind charge would not arise for the period.

79 Tax Free Childcare

Usually, if you or your partner have adjusted net income in excess of £100,000, you are not eligible for the tax-free childcare mentioned in Section **59**. However, if you have worked extra hours because of coronavirus, and are a critical worker, you are eligible for tax free childcare as long as you earn no more than £150,000.

80 Statutory Residence Test (SRT)

The government has introduced temporary measures to help those who have found themselves stranded in the UK and at risk of becoming UK resident, when normally they would be non-UK resident.

The following are deemed to be exceptional circumstances when determining the number of days spent in the UK:

- Being quarantined or advised by a health professional or public health guidance to self-isolate in the UK as a result of the virus;
- Being advised by official government advice not to travel from the UK as a result of the virus;
- Being unable to leave the UK as a result of the closure of international borders;
- Being asked by your employer to return to the UK temporarily.

If a day in the UK falls into one of the above categories, it is disregarded for the purpose of day counting for the statutory residence test.

The maximum number of days spent in the UK in any tax year that may be ignored due to exceptional circumstances is 60. Days spent in the UK over the 60-day limit count as a day of presence for the purposes of the SRT.

The above exceptional circumstances do not appear to apply to UK residents who have found themselves becoming non-UK resident for 2020/21 because they have chosen to remain outside the UK. Advice should be sought locally if you are overseas to establish whether you have become resident for tax purposes in the overseas country. We will also take this opportunity to remind you that it is possible to be tax resident in more than one country (Dual residents). If you think that this may apply to you and require further advice, then please contact the person who normally deals with your affairs.

ACTION POINTS

You might wish to use the list below to list any actions you now need to take. We hope that it is helpful.

No.	Paragraph	Action	Due Date	Action taken
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

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