YOUR GUIDE

YEAR END TAX PLANNER

2019/20

MENZIES

BRIGHTER THINKING

HLB
WE ARE AN INDEPENDENT MEMBER OF
THE GLOBAL ADVISORY
AND ACCOUNTING NETWORK

MENZIES
BRIGHTER THINKING

menzies.co.uk
advice@menzies.co.uk

Contents

INTRODUCTION

INTRODUCTION

COUNTDOWN TO TAX YEAR END

> *In this world, nothing is certain except death and taxes.*
>
> **- Benjamin Franklin**

Benjamin Franklin's worldly observation remains as true today as it did in the 18th century. While the Chancellor of the Exchequer is looking to reduce the tax gap, there are nonetheless still opportunities to review your financial arrangements for saving tax before the tax year-end on 5th April 2020.

Taking action now may give you the opportunity to take advantage of any remaining reliefs, allowances and exemptions. At the same time, you should be considering whether there are any relevant elections that you need to make before the start of the new tax year, and before the chance to do so is lost.

HOW TO USE THE TAX PLANNER

Take a few moments to review this planner, in which we highlight some simple tax planning strategies which could help you structure your affairs in such a way to help reduce your exposure to tax.

Unless otherwise specified, the tax rates used are for the 2019/20 tax year to 5 April 2020.

It should also be noted that from 6 April 2018 different rates of income tax have applied in Scotland. These are not taken into account.

MENZIES PRIVATE CLIENT TEAM

Personal tax planning can be complex. We would always recommend that you seek professional advice when undertaking a review to ensure all changes are processed and managed effectively. Please do speak with your Menzies contact who will be delighted to meet with you to discuss ideas, opportunities and the appropriate action.

INCOME TAX

INCOME TAX

The most common form of taxation for individuals is income tax, and the rates applied can be punitive. However, there are still strategies available which can eat away at the amount of income tax to which you would otherwise be liable.

INCOME TAX RATE BANDS

For background, the amount of income tax you pay is determined by the quantum of your taxable income. The current rate bands for income tax are as follows:

Income	First £50,000	£50,000- £150,000	Over £150,000
Rate	20%	40%	45%

Spouses are taxed independently (when any reference is made to spouses or married couples, this also includes civil partnerships).

YOUR BRIGHTERTHINKING NEXT STEPS:

"Consider making use of lower rate tax bands, and review tax implications of transfering income producing assets, but taking note of anti-avoidance and settlements legislation."

David Truman - Private Client Partner

MARRIED COUPLES

Married couples should utilise each person's personal reliefs, as well as their starting and basic rate tax bands.

It may be beneficial to consider gifts of income producing assets (which must be outright and unconditional) to distribute income more evenly between spouses.

For example: a saving of up to £12,500 in income tax per tax year could be achieved by the transfer of assets (that produce £40,000 of income per year) from an additional rate (45%) taxpayer to their non-earning spouse.

Income from jointly owned assets is generally shared equally for tax purposes. This applies even where the asset is owned in unequal shares unless an election (that needs to be filed with HM Revenue and Customs), is made to split the income in proportion to the ownership of the asset. Without the election being filed, the income will automatically be split 50:50. When the circumstances fit, we can assist with the advice and an election.

PERSONAL ALLOWANCE

The first £12,500 of a taxpayer's income is generally tax free by virtue of the personal allowance. It is important for individual taxpayers to make use of the personal allowance each tax year because it cannot be carried forward.

Where you are a basic rate taxpayer and your spouse does not pay any tax, it should be possible to transfer an element of the personal allowance. To action this, it is necessary to complete a specific claim – something that Menzies can manage on your behalf.

For those with incomes in excess of £100,000, the personal allowance (of £12,500) begins to be withdrawn at a rate of £1 for every £2 of income above £100,000. The impact is punitive with a 60% effective tax rate for income between £100,000 and £125,000.

Additionally, those with incomes of over £150,000 will be subject to the additional rate of tax (45%).

In these instances, you may wish to consider if there are any income tax deductions which can be claimed to reduce your income. These could include donations under Gift Aid, transferring income to others or by making pension contributions.

YOUR BRIGHTERTHINKING NEXT STEPS:

"Where a spouse does not use all of their personal allowance, consider electing to transfer an element to the other spouse to reduce the family's tax burden. Review any restrictions of allowances with a view to adjusting taxable income for the next tax year, and preservation of the personal allowance.
Individuals with income around the £100K mark could also consider making a pension contributions to regain their personal allowance or 'wrapping' any income producing assets within a more tax efficient investment structure such as an ISA or investment bond."

David Truman - Private Client Partner

DIVIDEND NIL RATE BAND

The first £2,000 of dividend income received in the tax year is FREE of income tax. Dividends received over and above the £2,000 tax free dividend allowance are subject to their own rate tax rate bands:

Basic rate	Higher rate	Additional rate
7.5%	32.5%	38.1%

If you own shares in a family company, you may wish to consider who else in your family could have shares. It is possible to have different shares issued with different rights (e.g. dividend only shares or non-voting shares). Be warned as careful planning is required to ensure you do not fall foul of the HMRC anti avoidance regulations.

YOUR BRIGHTERTHINKING NEXT STEPS:

"Try and make use of the dividend nil rate band where possible and consider declaring a dividend where the taxpayer is a shareholder in a family company and not fully utilising the basic rate tax band for the current tax year."

Tim Humphries - Corporate Tax Director

SAVINGS NIL RATE BAND

For basic rate taxpayers, there is a savings nil rate band of £1,000, which means the first £1,000 of savings income is taxed at 0%.

For higher rate taxpayers, the savings rate band is £500, and for additional rate taxpayers (i.e. taxable income over £150,000) it is withdrawn altogether.

The savings nil rate band is not transferable between spouses, so it is important to ensure that bank accounts are held to maximise the nil rate band.

YOUR BRIGHTERTHINKING NEXT STEPS:

"Don't forget to make use of your spouse's Savings Nil Rate Band. You could do this by electing to transfer savings held in your own name to your spouse."

David Truman - Private Client Partner

THE STARTING RATE FOR SAVINGS

Where a taxpayer has relatively modest non-savings income (e.g. employment, pension or income from property), they may be entitled to the £5,000 starting rate for savings allowance making this income tax free.

The starting rate for savings applies before the nil rate band. By careful planning - and where you have your own company - you could hypothetically extract £20,500 tax free, which can be broken down as follows:

- Personal allowance - £12,500
- Starting rate for savings - £5,000
- Savings nil rate band - £1,000
- Dividend allowance - £2,000

When considering profit extraction, timing is critical as it can have significant consequences on what tax is payable and when. We would strongly recommend seeking professional advice as there could be merit in deferring income to a later year.

YOUR BRIGHTERTHINKING NEXT STEPS:

"Utilise the 0% Starting Rate for Savings on the first £5,000 of income where appropriate. For those who have a family company, carefully consider the profit extraction techniques, with a view to tax efficiency."

Craig Hughes - Private Client Partner

ALLOWANCES - CHILDREN

Children have their own allowances and tax bands. It may be possible for tax savings to be achieved by the transfer of income producing assets to a child.

Generally, this is ineffective if the parent puts aside funds for their minor child (as the income remains taxable on the parent unless the income arising amounts to no more than £100 gross per annum). However, it may be relevant to parents with adult children or for grandparents who wish to make gifts to their grandchildren (even if minors). Bare Trusts could be established to provide for grandchildren's childcare and schooling costs, making use of the grandchildren's own income tax and capital gains tax allowances.

YOUR BRIGHTERTHINKING NEXT STEPS:

"In any family structure, consider how to make use of children's allowances, both for income tax and capital gains tax purposes."

David Truman - Private Client Partner

CHILD BENEFIT TAX CHARGE

For those with income over £50,000, or who are part of a couple where one of you earns over £50,000, then part or all of the Child Benefit claimed will be clawed back.

If your income is over £60,000 you may therefore consider disclaiming Child Benefit to avoid a claw back tax charge. However, if the claimant of child benefit is not themselves working, then disclaiming it will mean the year does not qualify for State Pension purposes. In this scenario you should just ask for payment to be stopped rather than disclaiming it altogether.

YOUR BRIGHTERTHINKING NEXT STEPS:

'If someone in your household receives the Child Benefit, do you earn over £50,000 and are the highest earner? If so, you may need to repay an element of the Child Benefit to HMRC. Should you earn over £60,000 consider whether the merits of stopping, but not necessarily cancelling, the Child Benefit."

Russell Dickie - Private Client Senior Manager

PAYE NOTICES OF CODING

Where you are employed, or have a pension, it is worth checking your PAYE Notice of Coding to ensure your allowances are correctly stated. This includes relief for pension contributions, charitable donations and any other tax reliefs.

HMRC's coding system has, in our experience, led to many incorrect coding notices. If the coding is wrong, many taxpayers could end up with an unwanted, and unexpected, tax bill after the end of the tax year. If you're in any doubt then Menzies can review your PAYE Notice of Coding to ensure it is reasonable and in line with your income.

YOUR BRIGHTERTHINKING NEXT STEPS:

"Where you are issued with a new PAYE Notice of Coding ensure you check it to ensure it includes the correct allowances and restrictions. Notify HMRC of any changes required."

David Truman - Private Client Partner

PROPERTY

In recent years, the Chancellor of the Exchequer has targeted individuals with second properties, and specifically buy-to-let landlords. This has included the introduction of increased Stamp Duty Land Tax, the restriction on expenses which can be set against rental profits and a hike in capital gains tax rates.

Probably the most controversial was the introduction (from 6th April 2017) of the finance costs restriction. Where it was previously possible to claim 100% tax relief on the finance costs of any loan associated with the rental, this is being replaced by a tax reducer over a four year period. Items which are included under finance costs include mortgages, loans (including loans to buy furnishings) and overdrafts.

For the 2019/20 tax year, the restriction that applies consists of 25% of the total finance cost being allowable as a deduction against rental income, and the balance claimed as a tax reducer. This reducer is given in the form of a 20% reduction based on the lower of: 75% of the finance cost; property profits or adjusted total income exceeding the personal allowance.

Therefore individuals with one or more buy-to-let properties may need to review their position and consider the initial and long-term impacts this may have on their property income and tax liability.

For those who have significant rental property businesses which are not currently structured as a company, there may be merit in considering doing so. We can quantify the benefit and implement the appropriate structure.

There is, however, light at the end of the tunnel and some tax breaks still available. For example, the landlord's energy saving allowance allows individuals to claim immediate income tax relief for qualifying expenditure of up to £1,500 per rental property per tax year.

If you rent a room in your main residence, the first £7,500 in rental income is tax free. This is called the "rent a room" allowance, and where you own a property jointly, the allowance is split.

Finally, if you have a Furnished Holiday Letting (FHL), you may qualify for some generous tax breaks, including obtaining full tax relief for interest on loans attached to the property, and a capital gains tax rate of 10% on eventual sale.

Specific conditions need to be satisfied to qualify as a FHL, and professional advice is strongly recommended.

Should you wish to pursue one or all of these property tax breaks, an informal discussion with one of our specialist property team members is a great first step to understand what opportunities may be available and your immediate next steps.

STAMP DUTY

YOUR BRIGHTERTHINKING NEXT STEPS:

“Where you have loans attached to rental properties, check whether restructuring is appropriate to maximise tax reliefs. Establish a tax reserve or buffer to account for the additional income tax for buy-to-let property as a result of the rule changes. If you have a buy-to-let property, or properties, consider through which vehicle you should hold them. For example, in your own name, as a couple, a partnership or a company. Should you have a Furnished Holiday Let, check you are happy all the appropriate conditions have been satisfied to ensure it qualifies for the appropriate tax breaks.”

David Truman - Private Client Partner

With effect from the 22nd November 2017, first time buyers paying £300,000 or less for a residential property will pay no SDLT.

First time buyers paying between £300,000 and £500,000 will pay SDLT at 5% on the amount of the purchase price in excess of £300,000. First time buyers purchasing property for more than £500,000 will not be entitled to any relief.

GIFTS TO CHARITY

Charitable donations made under the Gift Aid scheme can result in significant benefits for both the donor and the charity. It is important to keep a record of any charitable payments on which you wish to claim tax relief, as HMRC may request evidence.

A cash gift of £80 will generate a tax refund of £20 for the charity so that it ends up with £100. The donor will get higher rate tax relief of £20 so that the net cost of the gift is only £60. Where the 45% additional rate of tax applies, the net cost of the gift in this example would be only £55.

Care needs to be taken in claiming gift aid if you are a low earner and can create an unexpected tax charge if you gift funds which fall within your personal income tax allowance.

In addition, tax relief against 2019/20 income is possible for charitable donations made between 6 April 2020 and 31 January 2021. This is provided that the payment is made before filing the 2019/20 tax return.

For larger charitable donations, it may also be possible to make gifts of quoted shares and securities or land and buildings to charities and claim income tax relief on the value of the gift.

YOUR BRIGHTER THINKING NEXT STEPS:

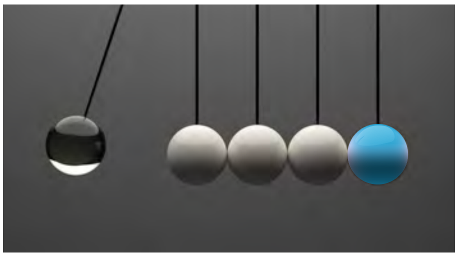
"Keep a record of any gift aid payments to ensure you claim the tax relief to which you are entitled.
If any gift aid payments are to be made post 6 April 2019, but before filing your 2019 tax return with HMRC, consider whether to treat the payment in the earlier tax year to accelerate any further tax relief."

David Truman - Private Client Partner

NOTES

CAPITAL GAINS TAX (CGT)

CAPITAL GAINS TAX (CGT)



The decision to sell capital assets should first of all be driven by investment considerations rather than tax. As such we'd recommend a chat with a Menzies Wealth Management (MWM) Independent Financial Adviser.

Provided it makes investment sense, you may wish to consider the following points before the tax year end:

- The first £12,000 of gains made in 2019/20 are generally CGT-free.
- Each spouse has their own annual exemption, as indeed do children. As the annual exemption cannot be carried forward, it will be lost if not used.
- Similar to the above, transferring assets to a lower earning spouse may create an opportunity to utilise their basic rate band so that CGT applies at 10% rather than up to 20%. (These rates are 18% and 28% for residential property).
- A Bed & ISA will allow you to utilise the current years ISA Allowance by moving investments from an unwrapped environment to the ISA Tax Wrapper. This is achieved by disposing of the unwrapped investment and repurchasing it via an ISA. The disposal of the unwrapped investments may be liable to CGT but once inside the ISA, the investments are sheltered from CGT in the future.
- You could also "straddle" a disposal across tax year end to make use of two annual exemptions. Alternatively, where you are planning on selling an asset, you may simply wish to consider delaying the disposal until after the end of the tax year. This may be helpful from a cash flow perspective as any tax arising will not then be due until 31 January 2022.
- Sale by one spouse and repurchase by the other (Bed & Spouse). This technique may also be used to establish a loss that can be set against any gains.

YOUR BRIGHTERTHINKING NEXT STEPS:

"Try and use your annual capital gains tax exemption. Use it or lose it.
Consider "Bed and Spouse" or else "Bed and ISA"
Consider delaying any further disposal into the next tax year, to use the future annual exemption, utilisation of lower rate tax bands, or simply delaying payment by a year.
Claim any capital losses, even if an asset has not necessarily been sold (i.e. it has become of negligible value).
Consider whether the loss can be carried back.
Ensure any losses that are carried forward are correctly recorded."

Craig Hughes - Private Client Partner

MAIN RESIDENCE

One of the most generous capital gains tax reliefs remains that for main residence, or home. In broad terms, when you buy a house, live in it as your main home, and then sell it, any gain is generally exempt from capital gains tax.

When selling a property that has been your main residence at some point, the final 18 months of ownership are deemed to be CGT exempt whether you are living there or not, although this may be reduced to 9 months from 6 April 2020.

If you have more than one home, you should consider the timing of a sale or making a main residence election. As there are time restrictions on making the main residence election, we strongly recommend you speak to us should you think this could be an issue or if your circumstances change.

From the 6th April 2015, the CGT legislation changed so that non-residents are liable to tax on disposals of UK residential property. As part of the regime, non-residents will be able to rebase their properties to the 6th April 2015 so that only the growth in value after this date is taxable.

Under the new regulations, the criteria for when a main residence election can be made will be possible ONLY if one of the following conditions is met:

- The individual is a tax resident in the same country as the property they wish to make the main residence election; or
- The individual spends at least 90 nights in the property (or if he or she owns more than one property in that country, 90 nights between all the properties).

Originally introduced to prevent non-residents simply electing for their UK properties to be their main residence, the regulations have knock-on implications for UK residents. A UK resident individual who owns a property overseas will be able to elect for that property to be their main residence, only if they spend at least 90 midnights there.

If you are already non-UK resident or are considering moving abroad, you should consider your CGT position in advance of either selling or relocating overseas. HMRC must be notified within 30 days of the sale or disposal of a UK property and a non-resident CGT return completed.

YOUR BRIGHTERTHINKING NEXT STEPS:

"Where you have more than one property, consider whether a main residence election should be filed with HMRC.
If you are not UK resident, but have a UK property, consider whether you can claim for this to be treated as your main residence for tax purposes. All election forms need to be filed with HMRC."

Russell Dickie - Private Client Senior Manager

TAXATION OF GAINS MADE BY NON-RESIDENTS

The government announced in the 2017 budget that from April 2019 tax will be charged on gains made by non-residents on the disposal of all types of UK immovable property.

This measure expands the scope of the UK's tax base with regard to disposals of immovable property by non-residents in two key ways:

1. All non-resident persons' gains on disposals of interests in UK land will be chargeable and;
2. Indirect disposals of UK land will be chargeable. This refers to the disposal of businesses that derive at least 75% of their asset value from UK land.

As part of these changes, non-residents are able to rebase properties not previously within the rules to the 6th April 2017 so that only the growth in value after this date is taxable. HMRC must be notified within 30 days of the sale or disposal of a UK property and a non-resident CGT return completed.

ENTREPRENEURS RELIEF

Where an individual and/or asset qualifies for Entrepreneurs' relief (ER), the capital gain will be taxable at 10%.

There are a number of important conditions, but generally ER applies to:

- The sale of all, or part of a trading business.
- The sale of shares in a qualifying company where you hold more than 5% of the nominal share capital and voting rights. From 29 October 2018 this has been extended to also require you to be entitled to 5% of the distributable profits and assets, or alternatively, to receive 5% of the proceeds if the company's ordinary shares were to be sold.
- You are an officer/employee of the company.

Planning may be necessary in order to adjust shareholdings so that the 5% requirement is held or so that other family members may also qualify for ER.

If you do hold shares in a company, or have any property which you think may be effected, a regular review to ensure that ER will be available on ultimate disposal is recommended.

YOUR BRIGHTERTHINKING NEXT STEPS:

"If you have any gains which you think qualify for ER, ensure you review the rules and conditions for the relief."

Tim Humphries - Corporate Tax Director

The minimum qualifying period has increased from 12 months to 2 years with effect from disposal after 6 April 2019.

INVESTORS' RELIEF

Investors' Relief provides a further separate lifetime limit of £10m with a 10% rate of tax on qualifying investments.

There are a number of important conditions with regard to the relief:

- It can apply to disposals of shares in unquoted trading companies or the holding company of a trading group.
- The shares must be ordinary shares, subscribed for and fully paid in cash.
- The shares must be held for at least 3 years from 5 April 2016.
- There are restrictions on investors being employees or directors of the company.
- The shares must have been issued and subscribed for at arm's length.

Unlike ER, there is no minimum qualifying percentage.

TAX EFFICIENT INVESTMENTS

It is possible to obtain additional tax reliefs by acquiring tax efficient investments. For some high income individuals who are restricted in their ability to make pension contributions, they may find that such investments are the only realistic options to mitigate income tax.

However, such investments carry risk to your capital and may not, therefore, be suitable for you even if they are tax efficient. Particular care should be taken when investing in EIS, Seed EIS or VCTs. A Menzies Wealth Management Independent Financial Adviser will be invaluable when considering this.

INDIVIDUAL SAVINGS ACCOUNT (ISAs)

Based on the current rates, up to £20,000 can be put into an ISA. The ISA wrapper ensures that any growth is both free of income tax and capital gains tax.

This is a useful technique for converting taxable interest and dividends into non-taxable income. To further increase the flexibility of an ISA, it is possible to withdraw funds from your ISA and replace them at a later date without the replacement funds counting towards your ISA investment limit for the year.

The ISA deadline is 5th April 2019 and, as unused reliefs are not transferrable to future tax years, we recommend you take advantage of the full ISA allowance. A number of clients now have significant tax-free funds they are able to draw upon thanks to these ISA allowances.

There are many types of ISAs, each with the same, and sometimes more, tax benefits:

- **Help to Buy ISAs**

These were introduced by the Government and will be available until the 30th November 2019, to help first time buyers aged 16 or over to save for a deposit on a home in the UK. As well as interest being tax-free, the Government will supplement the amount saved with a bonus of 25%. This is limited to £3,000 per person.

- **Lifetime ISAs**

Introduced on the 6th April 2017 to encourage young people to save. Where an individual between 18 and 40 saves up to £4,000 each year, the Government will contribute a bonus of 25%. Funds may be withdrawn for use to purchase a first home or for retirement. Help to Buy ISA account holders can transfer into the Lifetime ISA.

- **Junior Individual Savings Account (Junior ISA)**

Introduced to replace Child Trust Funds (CTF), can be used to fund higher education by allowing parents, other family members or friends to invest up to £4,368 annually in a tax free fund for a child. There are no Government contributions and no access to the funds until the child reaches 18.

ENTERPRISE INVESTMENT SCHEME (EIS)

EIS allows income tax relief at 30% on new equity investment (in qualifying unquoted trading companies) of up to £1 million in 2019/20. As such, it can reduce your income tax bill by up to £300,000 for the tax year.

It is also possible to carry back relief to the 2018/19 tax year if the £1 million limit was not utilised last year.

There are additional tax benefits for qualifying EIS shares including:

- If held for at least 3 years, EIS gains are exempt from capital gains tax.
- EIS losses could be set against your taxable income (rather than capital gains).

- Other capital gains can be deferred to the extent that you invest in EIS investments. You could have sold an asset up to 3 years before the EIS share issue, and look to defer that gain, and claw back any capital gains tax previously paid.
- Where you hold the shares for 2 years, they are effectively free from inheritance tax.

Given the tax benefits on offer to investors, we have assisted many companies looking to attract investment in completing and obtaining HMRC approval for an EIS application.

SEED EIS (SEIS)

The SEIS is essentially the little brother to EIS, and is aimed at smaller companies. The additional risks associated with such investments are reflected in the more generous tax breaks.

The maximum which can be invested under the SEIS in one year is £100,000. However, it is possible to carry back the income tax relief to the previous year.

Tax breaks include:

- Income tax – 50% tax reducer.
- Capital gains tax – free from CGT if held for 3 years.
- Losses – In the event of a capital loss, this can be set against your general income.
- Reinvesting gains from other non-SEIS investments into an SEIS investment can result in 50% capital gains tax relief on the original gain, as well as deferral of the remaining tax until the SEIS shares are sold.
- Inheritance tax – The shares are not liable to inheritance tax on death if owned for more than two years.

VENTURE CAPITAL TRUST (VCT)

A VCT is a collective investment fund which invests in unquoted trading company shares. VCT dividends and capital gains can be tax free.

Income tax relief (currently at 30%) is available on subscriptions into VCT shares up to £200,000 per tax year so long as the shares are held for at least five years.

SOCIAL INVESTMENT TAX RELIEF (SITR)

The SITR is designed to support social enterprises seeking external finance by offering income tax reliefs to investors who invest new shares or qualifying debt investments.

Making a qualifying investment may deliver a 30% income tax deduction of the value of the investment, up to a ceiling of £1 million.

CGT on chargeable gains may be deferred to the extent which you reinvest the profits in social enterprises, such as charities or community interest companies.

It is possible to treat all or part of the investment as made in the previous tax year.

YOUR BRIGHTERTHINKING NEXT STEPS:

"Whilst there are tax incentivised investments available, it is important that any investment decision is made with a view to all relevant circumstances – each case will be different. Investment advice is a regulated activity, so you should speak directly to an Independent Financial Advisor. If you do not already have an IFA, we would be pleased to introduce you to Menzies Wealth Management."

Russell Dickie - Private Client Senior Manager

INHERITANCE TAX (IHT)

INHERITANCE TAX (IHT)

Essentially, where your estate is worth more than £325,000 at death, there could be IHT to pay by your executors. IHT is a complex area and regular advice in this area is strongly recommended as a person's IHT exposure is likely to change from year to year.

As a general guide, it is key to make sure that you have a tax efficient Will in place and that you consider taking appropriate life assurance cover to help protect your family financially.

In addition to a regular consideration of your IHT exposure, you may wish to use the year-end to consider the following:

- **Utilise your IHT annual exemption**

Gifts of up to £3,000 per year can be made on an IHT free basis. The limit increases to £6,000 if the previous year's annual exemption was not used. A married couple can therefore make IHT exempt gifts totalling £12,000 per tax year. This simple technique could save a possible IHT bill of £4,800 in the event of your untimely death.

You should also consider using other annual gifts such as gifts in consideration of marriage or £250 small gifts.

- **Normal expenditure out of income**

There is an exemption for making regular gifts out of income of any size where certain conditions are met. This exemption means that sizable gifts can potentially be made but in a way that the gifted amounts instantly fall outside of your taxable estate upon death (rather than waiting for a 7 year period).

- **Business relief (BR)**

This is a valuable IHT relief which may apply to exempt or partially exempt business property on death. BR is an important part of succession planning but, due to the complexity of the BR rules, the relief may not be due even though you expect to meet the conditions.

It is important to regularly review your BR position to ensure that it continues to apply and that your business activities do not jeopardise your BR position.

- **Passing on your pension**

Key changes to the taxation of pension death benefits were introduced in 2015. These changes can allow an individual to pass on their pension pot from generation to generation in a tax efficient manner.

Since then, if death occurs before the age of 75, the pension fund can be passed on tax-free to a beneficiary. If death occurs after 75, the fund can be drawn by a beneficiary at their own marginal rate of tax. A beneficiary will have the option to receive the death benefits either as a lump sum, drawdown or an annuity. The definition of a beneficiary is much wider than that of a dependent, allowing considerable freedom in choosing who you want to benefit from your pension fund.

If death benefits are paid as a lump sum, those benefits would form part of a beneficiary's estate. Therefore, an efficient way to pass on death benefits is to consider 'dependents drawdown'. This would allow the beneficiary to continue to enjoy the tax advantages associated with investing in a pension, whilst allowing them to draw income as and when required. The fund could then be used as a further legacy for them to pass on to their own beneficiaries.

It is important that death benefit nomination forms are reviewed as individuals who you want to have the option to benefit from dependents drawdown will need to be included on these. In our opinion, pensions should be considered in the context of IHT and alongside any Will planning.

It is also important to review whether your pension scheme provides for those flexibilities.

YOUR BRIGHTERTHINKING NEXT STEPS:

"Consider your Inheritance Tax position and possible exposure in the event of your untimely death.
Do you have note of your worldwide assets, including access codes for investments held online?
Make use of the IHT exemptions each year, where possible, to reduce your exposure. Consider how you can use any pension pot for IHT planning.
Do not dilute your estate to the extent you make sufficient provision for your own position and possible support you need to make in the future."

David Truman - Private Client Partner

IHT AND WILLS

The cornerstone of any effective IHT planning is your Will. It is important that your current Will is up to date and in line with your future wishes.

A review of your Will can help to ensure that all details are correct and there are no misstatements which may lead to parts of your estate not being administered as you intended. Failure to do so can also have an adverse effect on your inheritance tax position and the amounts chargeable to inheritance tax.

If you do not have a Will in place we would advise taking the time to create one and therefore minimising the risk that the state will determine how the assets are distributed on death under the intestacy rules (a form of heirship).

Menzies are able to assist you with advice on the preparation and review of your Will as well as answering any questions you may have in this important and complex area.

YOUR BRIGHTERTHINKING NEXT STEPS:

"In the event you do not already have a Will, we would recommend you arrange to have one put in place. If you have not reviewed your Will for 2 years, we recommend you revisit."

David Truman - Private Client Partner

ADDITIONAL RESIDENCE NIL RATE BAND

As of the 6th April 2017, if an individual passes on their home to a direct descendant on the individuals' death, an additional residence nil rate band (RNRB) is available for an estate.

Any unused RNRB can be transferred to a surviving spouse or civil partner. For 2019/20 the RNRB that may be available will be £150,000.

This additional allowance when reviewed in conjunction with a review of your Will could be beneficial to many individuals and should be taken into consideration with regards to any future tax and estate planning.

YOUR BRIGHTERTHINKING NEXT STEPS:

"Ensure your Will does not prevent you making use of the Additional Residence Nil Rate Band."

Craig Hughes - Private Client Partner

PLANNING FOR THE FUTURE

It is never too early to get started on planning ahead for the future. Having a plan in place will not only ensure your affairs are structured in the most tax efficient manner, but also allow you to optimise and consider your estate position and possible investment options.

There are many different aspects to consider when looking to plan ahead for the future, including the possibility of moving to or departing the UK, current domicile position and the inheritance tax implications associated with domicile, retaining your profits and tax efficient savings for financially secure retirement.

YOUR BRIGHTERTHINKING NEXT STEPS:

"Ensure your Will says what you want it to say. Ensure you understand your Will and make time to consider your IHT position both for yourself, and as a family."

David Truman - Private Client Partner

PROBATE

Having supported you throughout your working life and then into your retirement, we are also experienced in dealing with and providing probate advice and estates advice.

Although probate matters are not traditionally viewed as a year end matter, taking the time to consider the provisions you want to make for the future should be at least an annual assessment. As the trusted advisor, we aim to support your family and beneficiaries at the times we are needed. We have specially qualified partners and staff who can assist with a wide range of services. We also have partners who are able to act as Executors and Trustees, if required, along with members of your family.

We feel that we are best placed to provide probate services, having worked with you throughout your life to create a plan for your wealth. As accountants, we believe that we are best suited to the provision of probate services, as we specialise in accounting, taxation and administration. We also have a number of STEP qualified members within our team.

YOUR BRIGHTERTHINKING NEXT STEPS:

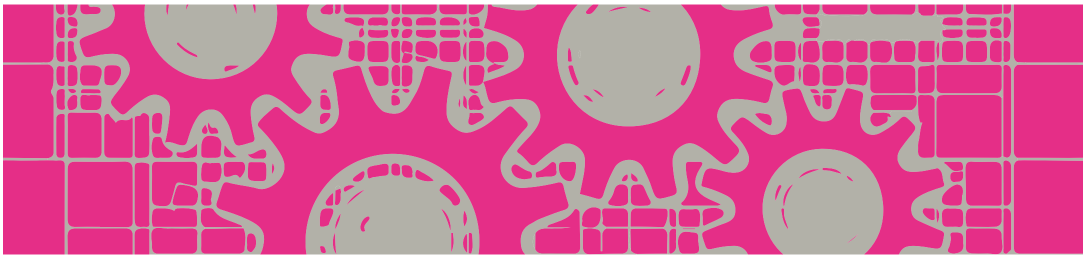
"Undertake an annual assessment of your own wishes. Assess whether you would like Menzies to assist with probate matters in the future; consider updating your Wills accordingly such that your family members do not have to decide on this in the future."

Craig Hughes - Private Client Partner

NOTES

MAKING TAX DIGITAL FOR BUSINESS: VAT

MAKING TAX DIGITAL FOR BUSINESS: VAT



HMRC is phasing in its landmark Making Tax Digital (MTD) regime, which will ultimately require taxpayers to move to a fully digital tax system. Regulations have now been issued which set out the requirements for MTD for VAT. Under the new rules, businesses with a turnover above the VAT threshold (currently £85,000) must keep digital records for VAT purposes and provide their VAT return information to HMRC using MTD functional compatible software.

The new rules have effect from 1 April 2019 where a taxpayer has a 'prescribed accounting period' which begins on that date, or otherwise from the first day of a taxpayer's first prescribed accounting period beginning after 1 April 2019. HMRC has recently announced that the rules will have effect for some VAT-registered businesses with more complex requirements from 1 October 2019. Types of business within the deferred start date category include Trusts, VAT divisions, VAT groups and businesses using the annual accounting scheme.

HMRC has recently opened a pilot service for businesses with straightforward affairs (i.e. those who will need to use the service from April) and the pilot scheme will be gradually extended for other businesses in the next few months.

Keeping digital records and making quarterly updates will not be mandatory for taxes other than VAT before April 2021.

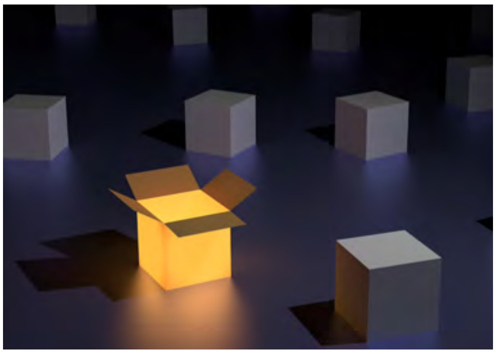
YOUR BRIGHTERTHINKING NEXT STEPS:

"Keeping digital records will not mean businesses are mandated to use digital invoices and receipts but the actual recording of supplies made and received must be digital. It is likely that third party commercial software will be required. Software will not be available from HMRC. The use of spreadsheets will be allowed, but they will have to be combined with add-on software to meet HMRC's requirements. In the long run, HMRC is still looking to a scenario where income tax updates are made quarterly and digitally, and this is really what the VAT provisions anticipate."

Robert Facer - VAT Director

PENSIONS

PENSIONS



The combination of generous tax reliefs on contributions; tax-efficient growth within the pension fund; flexible access from the age of 55; and tax efficient death benefits can make your pension particularly useful for both retirement and estate planning.

There are many opportunities for pension planning, but as this is a complex area we suggest you talk to an Independent Financial Advisor (IFA) before taking action. If you do not already have an IFA we would be pleased to introduce you to one of our colleagues from Menzies Wealth Management.

LIFETIME ALLOWANCE (LTA)

Pension contributions paid by an individual continue to attract tax relief at their marginal rate. The LTA for pension savings was reduced to £1 million with effect from the 6th April 2016.

The LTA will increase to £1.05 million from April 2019. The government has provided transitional protections but, unlike previous instances, the government has not set a deadline for applications. This means that, in certain circumstances, some individuals may still be able to apply for protection. This may be relevant for individuals who have already accumulated substantial money purchase pension funds (e.g. Personal Pension) or those who are high earners (or have been high earners) in relation to membership of a Defined Benefit Scheme.

LTA advice is a particularly complex area and individuals should think very carefully before foregoing valuable benefits from an employer (e.g. Employer Pension Contribution or accrual under a Defined Benefit Scheme) simply to avoid a Lifetime Allowance Charge. Of course, each situation should be considered on its own merits but we would encourage you to seek advice from an Independent Financial Adviser before taking action.

PENSION CARRY FORWARD

The pension annual allowance can be carried forward for three tax years providing you were a member of a registered pension scheme during that period. Any unused annual allowance for the three previous tax years (2016/17, 2017/18 and 2018/19) can be added to your 2019/20 allowance (giving a maximum contribution of £160,000) and will attract tax relief at your marginal rate.

If you run your own company, there may be an opportunity to extract profits tax efficiently by making this contribution through your company. The last opportunity to utilise any available carry forward allowance available from the 2016/17 tax year will be 5 April 2020.

PENSION TAPERED TAX RELIEF

Since the 6th April 2016, pension tapered tax relief has restricted the pension allowance of individuals with adjusted net income exceeding £150,000. These individuals have seen their standard allowance of £40,000 reduced by £1 for every £2 of income in excess of £150,000.

Individuals with an adjusted net income in excess of £210,000 will suffer the full reduction of their annual allowance to £10,000. No tax relief will be available for contributions in excess of this figures.

The definition of adjusted net income is complex but notably includes employer pension contributions as well as other sources of income such as rental income.

PENSION FREEDOM REFORMS

The pension freedom reforms introduced in recent years allow an individual aged over 55 to withdraw their entire pension fund as a lump sum. However, individuals considering doing so should be aware that pension funds withdrawn as 'income' are taxable at the recipient's marginal rate.

A lump sum withdrawal can, therefore, result in a significantly higher tax bill than would be the case if the same income was withdrawn over multiple tax years, utilising each year's respective allowances and income thresholds. Individuals should also note our earlier comments regarding the IHT efficient nature of pension death benefits as the withdrawal of lump sums will add to the 'taxable estate' when accumulated rather than spent. Again, each situation should be considered on its own merits.

YOUR BRIGHTERTHINKING NEXT STEPS:

"Pensions remain an efficient planning tool for tax and as an investment tool, but specialist advice is essential. An innocent oversight can cause a raft of unwanted tax, and other, issues. Talk to us about an introduction to a Menzies Wealth Management Independent Financial Advisor."

Ben Simpson - Wealth Management CEO

NOTES

NON-UK DOMICILIARIES

NON-UK DOMICILIARIES

Foreign domiciliaries, sometimes referred to as Non-UK domiciliaries or more colloquially "non-doms", will be burdened with having to consider a number of statutory changes.

Regular readers of our updates will notice that the position is relatively unchanged. Due to the delay in the passing of the legislation following the snap general election in June 2017, implementation of part of the finance bill was postponed. This included all of the legislation affecting non-doms, and was finally passed into law in the Finance (No 2) Bill 2017 late in 2017. As expected the substantial changes are coming into effect retrospectively and apply from 6 April 2017 and many people will have acted in anticipation of these changes before the legislation's postponement.

Although this detail falls outside the scope of this planner, it is important to seek advice and clarity even if the changes are unlikely to affect you or you have already acted in anticipation of the changes. Menzies have a team who specialise in providing bespoke tax advice to foreign domiciliaries and answering offshore queries.

THE CHANGES

UK deemed domicile for all tax purposes

Foreign domiciliaries will be deemed UK domiciled for Income Tax, CGT and IHT purposes once a UK tax resident for at least 15 out of the past 20 tax years.

Since the 6th April 2017, such individuals have been taxed on their worldwide income and capital gains on an arising basis. Unless suitable planning is undertaken, they will also be subject to UK IHT (currently set at 40%) on their worldwide assets. IHT protection will be available for trusts created by an individual before they become deemed UK domiciled.

Those who became deemed UK domiciled on or after the 6th April 2017 should speak with their Menzies contact to ensure that the necessary planning is put in place. This ranges from simple bank arrangements to complex offshore structures.

The Returning Foreign Domiciliary (RFD)

Any individual who has a UK domicile of origin and was born in the UK and subsequently acquired a foreign domicile of choice, will immediately be treated as being UK domiciled for tax purposes if they return to be a tax resident in the UK at any point.

Foreign residents who originally had ties with the UK who wish to relocate to the UK, should carefully consider how these new rules will affect them as with arrangements that were established whilst they were not a UK tax resident. The risk is that one might accidentally become a UK tax resident and immediately fall within the scope of UK income tax, CGT and IHT.

Rebasing of capital assets

Capital gains realised after 6 April 2017 will enjoy freedom from CGT to the extent that the gain accrued before that date. This is achieved by the application of a rebasing election which will apply on an asset by asset basis.

The relief will only be available to individuals personally owned assets which were held outside of the UK as at 16 March 2016 by those individuals who became deemed UK domiciled on 6 April 2017.

UK residential property

Legislative changes now provide that UK IHT will apply in relation to UK residential property in cases where it would previously have been protected. Examples include cases where the property is held through a non-UK corporate structure directly or as part of a structure headed by a trust. If you own UK residential property through a structure or not, you should seek advice in connection with the exposure to UK IHT options which could be available to reduce the burden. This also applies to the finance costs attributable to purchasing UK property.

YOUR BRIGHTER THINKING NEXT STEPS:

"If you consider yourself a non-dom, ensure you have discussed with your tax advisor, and you have as much ammunition as possible, to defend your non-dom status in the event of a query from HMRC. Non-doms remain under the spotlight at HMRC, and specialist tax advice is critical."

Craig Hughes - Private Client Partner

BUSINESS INVESTMENT RELIEF (BIR)

BIR allows UK tax resident foreign domiciliaries to invest untaxed foreign income and gains in qualifying UK businesses without triggering a UK tax charge. From the 6th April 2017 the scope for relief has been widened, and its application less restrictive however rigid procedures must be followed for the relief to apply.

YOUR BRIGHTER THINKING NEXT STEPS:

"The BIR remains a little known, but extremely tax efficient investment, for non-doms who want to remit untaxed funds to the UK without suffering an immediate tax charge. Specialist advice is essential."

Chris Gillman - Private Client Senior Manager

OFFSHORE TRUSTS

UK resident settlors and or beneficiaries of foreign trusts should seek advice so as to clarify how the recent legislative changes will affect them, if they haven't already.

YOUR BRIGHTER THINKING NEXT STEPS:

"If you have an interest in a foreign trust, be it as a settlor, trustee or beneficiary, we would recommend you speak to your Menzies contact."

Russell Dickie - Private Client Senior Manager

INTERNATIONAL & OFFSHORE RESIDENCY RULES

INTERNATIONAL & OFFSHORE RESIDENCY RULES

As a consequence of the new Statutory Residency Test (SRT) you can enjoy more certainty as regards your residency status for UK tax purposes. That said, the rules still require careful thought and planning especially for those who believe that they are non-UK tax resident but continue to visit the UK.

For those relocating to the UK, it is key that UK tax advice is taken beforehand. This is because a great deal of the planning opportunities that are available cannot be implemented once you have become UK tax resident.

Under the SRT, an individual is treated as being a UK tax resident for the whole of the tax year even if they arrive or leave part way through. In many cases the 'split year treatment', as it is known, will apply to ensure that you are not subject to UK taxes for the period prior to or after having lived in the UK.

In cases where the split year treatment does not apply, it is generally advisable for those leaving the UK to do so just before the start of the new tax year. In contrast those arriving in the UK without the benefit of the split year treatment, should consider relocating to the UK just after the start of the tax year.

For internationally mobile employees who are awarded share options, the regulations have changed. Where options are exercised, they will be liable to UK tax to the extent that the employee has been in the UK; the earnings will be time apportioned to periods pre and post arrival in the UK.

Similarly, employees who have already exercised options that still contain restrictions will be liable to a tax charge if the restrictions are lifted (or deemed to lift). Care and advice should be taken for such individuals, and Menzies would be delighted to offer tailored support.

YOUR BRIGHTERT HINKING NEXT STEPS:

"If you consider yourself non-UK resident for tax purposes, we would recommend you consider the Statutory Residence Test (SRT). Your ties to the UK could bring you within the UK tax net, and careful consideration and planning is recommended. This needs to be kept under continuous review. In the event you are to leave the UK, or else come to the UK, speak to an advisor. For the internationally mobile, who have been awarded share options, give as much consideration to UK tax implications on vesting, exercise or sale."

Craig Hughes - Private Client Partner

NOTES

MENZIES

BRIGHTER THINKING

ACCOUNTANCY | FINANCE | BUSINESS

MENZIES

BRIGHTER THINKING

advice@menzies.co.uk
menzies.co.uk

WE ARE AN INDEPENDENT MEMBER OF
HLB THE GLOBAL ADVISORY AND ACCOUNTING NETWORK