RAWLINSON
& HUNTER

ISSUE 2
SPRING 2020

RAWLINSON & HUNTER

CONTENTS

Welcome *1*

Enterprise Investment Scheme: A Worthwhile Relief? *2*

A Bad Relief *3*

Just Checking: An HMRC Enquiry *4*

Divide and Conquer: Jointly Owned Assets *5*

Non Resident Company Landlords: All Change *7*

What Effect will Corona Virus have on Property Prices? *8*

Jackie Hunt: Managing at Home *10*

Personal Tax - Key Changes to Tax Rules for 2020/21 *11*

WELCOME

Welcome to the second edition of TAX PULSE, our regular client guide to all things related to personal tax. This edition arrives in difficult and challenging times for everybody and we recognise tax will not be at the top of your list just now (amazingly it is sometimes at the top of ours!). Nevertheless, we hope you find the articles of interest and assistance. We focus on planning opportunities, some important tax reliefs, key news items and also on the often difficult topic of jointly owned assets. Jeremy McGivern of Mercury Home Search provides a personal view on the impact of the Corona virus on the UK property market.

Given the difficult times, we wanted to be as cheerful as possible. Not always easy as tax advisers! So we include a short profile of our office manager, Jackie Hunt, and her remarkable connection with the firm. Say hello to Jackie the next time you are in our London office!

We wish all readers a stress free and healthy time and look forward to seeing you again in person as soon as possible.

Best regards

The Partners

RAWLINSON & HUNTER

EIS: A WORTHWHILE RELIEF?

Read this if you are looking for tax efficient investments, to reduce your income tax bill or to shelter a capital gain.

It is of increasing importance to utilise fully tax reliefs as part of a prudent tax planning strategy. So, in the first of a series of articles on important tax reliefs in the UK tax system, we look at the enterprise investment scheme (EIS) and the tax advantages it can offer.

In addition to the tax advantages discussed below, it is also important to consider the commercial and investment aspects of an EIS investment because while the tax reliefs can lessen the pain an investment loss is still a loss. Shares qualifying under EIS are typically high risk so it is recommended that investment advice is obtained from a financial adviser. You may also wish to consider EIS funds which can reduce the risk of single investments. These funds typically involve an investment manager selecting a portfolio of EIS qualifying investments and disposing and subscribing for further investments when they deem it appropriate.

AN OVERVIEW

EIS was introduced in 1994 to encourage individuals to invest in unquoted trading companies. For this purpose, AIM listed shares are considered unquoted. If the company is an overseas company, it must have a permanent establishment in the UK. Certain trades are excluded, particularly those which are asset backed. EIS allows a qualifying company that meets certain conditions to raise funds by issuing full-risk ordinary shares to investors who are not connected with the Company. "Connection" is widely defined and an individual and persons connected with him (e.g. his spouse, parent, children) must not control 30% or more of the ordinary share capital. An individual who is a paid director or employee at the time the shares are issued is also connected. However, if the individual becomes a director and paid at a commercial rate post the share issue the availability of the relief is not prejudiced.

Income tax relief is available on the investment at 30% of the amount invested. The maximum qualifying investment is £1 million a year, although an individual can invest up to £2 million in EIS qualifying shares as long as at least £1 million is invested in "knowledge intensive companies". There is no minimum investment requirement.

There are provisions for the carry back of the relief and you should consider this position when submitting your annual tax return. An investor may claim up to 100% of the relief as if the shares had been issued in the prior tax year. Relief on subscriptions of up to £1 million in 2020/21 may be carried back to 2019/20 to the extent of the maximum available relief for that prior year, after taking into account any qualifying subscriptions made, and EIS relief already claimed for 2019/20. The investor must have paid sufficient income tax to obtain relief, otherwise the tax relief is wasted since there is no alternative mechanism for the relief to operate.

The other key tax break is that any gain on the eventual disposal of the shares is exempt from CGT provided the shares have been held for at least three years and income tax relief has been given and not withdrawn on the shares. If the shares are sold at a loss the cost of the shares is treated as reduced by the EIS relief given. Any

loss may be set off against other gains in the year, carried forward or set against income of the year of loss or the preceding year.

An EIS investment may also be used to defer a gain on the disposal of other CGT assets. In such a case, the deferral relief is available even if the individual is connected with the company. There are restrictions on the amount of gross assets. The investment must be made 1 year before or 3 years after the gain it is intended to shelter. There are no limits on EIS deferral so if the investment for the tax year exceeded the EIS income tax allowance mentioned above, it will not preclude CGT deferral relief. When the EIS investment is sold, the deferred gain is crystallised and chargeable to CGT in that tax year. However, it is possible to make a further EIS deferral relief claim in respect of these crystallised gains by making a fresh EIS investment. Hence in theory, it is possible to defer gains perpetually until death when the gains can escape CGT for the final time under the death exemption and market value uplift.

Finally, provided EIS investments are held for two years before death, they can often benefit from IHT exemption under the present rules.

EIS can be a helpful relief but it is hedged around with restrictions. Perhaps time normally spent on travel could be employed in deciding if the relief has a part to play in your tax return and investment portfolio?

A BAD RELIEF?

Read this if you are selling a business or shares in a private company or did so since 6 April 2019.

The Budget on 11 March renamed entrepreneurs' relief and took a big slice out of it, but it remains an important relief for capital gains tax purposes and so taxpayers should still make sure that they use it where possible.

Entrepreneurs' relief is to be re-christened business asset disposal relief for 2020-21 onwards. The relief reduces the effective rate of CGT to 10% on the first £1million of gains where a taxpayer disposes of qualifying assets. Such assets typically include an interest in a business or shares in an unquoted trading company.

Until recently the relief had a lifetime limit of £10million but even as a shadow of its former self, entrepreneurs' relief can deliver a tax saving of £100,000. If there was a sale of a family company in which the family were shareholders and directors (e.g. parents and their 2 adult children) then the aggregate tax saving could be £400,000. So don't give up on the relief just because it has slimmed down.

The relief is, however, full of traps and it is easy to fail to qualify for the relief. You should have a regular "health check". For example, to qualify for the relief on the sale of shares you must own at least 5% of the shares for at least two years, be a director or employee (although part time work qualifies) and the company must be an unquoted trading company (and HMRC's definition of a "trading company" is not always what you might expect). Don't leave the review of the position until you are about to sell the shares – by then it may be too late to improve the position.

The scope of the relief is not as wide as its re-branding may suggest and this has led to some criticising its new name as a bad one. For example, the relief has never applied (and will not now) to the disposal of the assets of a continuing business.

The March 2020 Budget also introduced forestalling measures to reduce the amount of entrepreneurs relief and these may apply where contracts were exchanged but not completed before 11 March 2020 or where shares were exchanged for those in another company on or after 6 April 2019 but before 11 March 2020 and (broadly) the same person(s) control the companies. If you consider you may fall within these provisions, you should seek specific advice.

A CGT review can easily be linked with a business property relief (BPR) review for inheritance tax purpose. BPR can exempt shares in unquoted trading companies from inheritance tax. Again, HMRC have specific definitions – too much excess cash may prejudice your chance of qualifying but some tax restructuring can help. It is important to keep the cash in the business under review, and provide evidence that it is required for the purposes of the business. A future edition of Tax Pulse will consider BPR in fuller detail.

JUST CHECKING: AN HMRC ENQUIRY

Read this if you are non-domiciled and received an enquiry from HMRC.

No one welcomes an enquiry by HMRC into their personal tax return. However, the reality is that this is not an uncommon experience for many tax payers, particularly high net worth and/or non-UK domiciled individuals. Information provided by HMRC indicates that for one year alone (2016/17) the tax authorities opened over 300,000 enquiries into self-assessment tax returns.

So, in the event that you do receive an enquiry into your personal tax return, you should not feel victimised or singled out. Nor should you take fright. Rather you should stay calm and consult your usual Rawlinson & Hunter LLP contact who will be able to advise you and guide you through the process of dealing with HMRC.

In the case of non-UK domiciled individuals, where there has been significant recent change in the legislation affecting the UK taxation of such individuals, HMRC's focus of investigation tends to be on one of a number of key areas.

One obvious topic for HMRC to focus on is an individual's domicile status, particularly where an individual has been UK resident for some time. The level of questions by HMRC can be quite extensive, in some cases going back many years. Taxpayers should consider preparing domicile statements to support their claimed domicile, as these can be helpful in times of an enquiry.

HMRC may also ask about any trusts established by non-UK domiciled individuals to check that they have not been tainted, for example, where property has been added directly or indirectly by the person who established the Trust, after such individual has become deemed domiciled, since the Trust could then lose its valuable "protected" status for UK tax purposes. This is a complex area requiring specialist advice.

Other areas where HMRC may enquire are checking details of capital gains or capital loss claims, for example the nature of disposals, and, for qualifying non-domiciled individuals, requesting information to confirm 5 April 2017 market valuations, where in the case of non-UK assets they are taking advantage of the ability to rebase the acquisition cost of their foreign assets to their 5 April 2017 market value. In such situations, it is important to retain evidence of acquisitions, disposals and valuations used in tax returns.

Where non-UK domiciled taxpayers have claimed the remittance basis, so that they are taxable on UK sources of income but not on foreign sources of income/capital gains unless these are remitted to the UK, HMRC does sometimes check for possible unreported remittances.

For non-UK domiciled clients who have become deemed domiciled i.e. these who are taxable on their worldwide income and capital gains, HMRC may seek to check that individuals' tax returns are correct. This is particularly the case where HMRC has received information under the Common Reporting Standard (i.e. the automatic annual exchange of financial information between jurisdictions) which may for some reason differ from the information reported on the individual's tax return. Often, there is a simple explanation for discrepancies. But individuals do sometimes make mistakes and where this occurs it is always best to disclose this to HMRC at the earliest available opportunity.

It is understood that, in the current difficult circumstances, HMRC have (to a degree) "locked down" their enquires and are not requesting new information or documents in open enquiries, or pressing for responses to requests already made. But it will make sense to make use of any down time now to collate information and explanations needed for enquiries. Ultimately, they will need to be dealt with and interest will accrue on any unpaid tax so delay can increase the ultimate bill.

Rawlinson & Hunter LLP have considerable experience in assisting clients in dealing with tax investigations. Combining technical expertise with a practical approach to handling any investigation, our aim is bring enquiries to a conclusion in as timely and as favourable a fashion as possible.

DIVIDE AND CONQUER: JOINTLY OWNED ASSETS

Read this if you want to maximise the family budget.

An individual's tax exposure on an asset they own with others is, in most cases, determined by reference to their share of ownership of the asset. So, say, two brothers bought a London pad to rent out; one brother was not prepared to go halves on the purchase and so they own the property 2/3 and 1/3 respectively. When they rent the property out or if they sell it in the future, rental receipts and the capital gain or loss that may arise on the disposal will be split between them by reference to those proportions. For inheritance tax purposes, the same principle would apply if they own the property as 'tenants in common' – this means they are treated as owning their distinct shares of the property and are free to pass it to anyone under the terms of their will. If they own the property as joint tenants, each brother would be treated as owning a fractional share in the whole of the property and on death of one, the surviving owner would inherit the deceased's share automatically.

For married couples and civil partners, the position is slightly different. Capital gains or losses will be split and taxed in accordance with the actual ownership proportions; inheritance tax will be assessed based on this ratio also (except in cases of joint tenancies – which are fairly common with spouses); but not income. The automatic assumption here is that income from jointly owned assets (be it property or other assets such as bank accounts) is shared equally between the spouses, notwithstanding the actual beneficial ownership of the asset (limited

exceptions exist). This approach therefore often results in tax leakage in situations where the larger part of the asset(s) is de facto owned by a basic rate taxpayer (or even a non-tax payer) and the "minority interest" by the higher earner in the household.

An example, based on 2020/21 tax rates, may illustrate the position.

A happily married couple, Anna and Andrew, own a rental property 10:90 respectively; net rental income is £50,000 per annum. Anna works full time and is an additional rate taxpayer, whilst Andrew is a stay-at-home dad. Being treated as receiving rental income in equal shares means a tax liability of £11,250 for Anna and £2,500 for Andrew, so a total of £13,750 for the family. Splitting income by reference to actual ownership proportions means most of it is taxed in Andrew's hands at 20%, which reduces the family's total income tax liability to £8,750. Put simply, this is an extra £5,000 of disposable income.

To rectify the automatic 50/50 split, the couple are able to complete and file with HM Revenue & Customs ("HMRC") a Form 17. This is essentially a notification to HMRC that the property is held in unequal shares requesting that each spouse should be assessed to tax accordingly. Once made, the declaration will be valid until permanent separation, divorce, death or a change in circumstances. There are certain requirements that need to be complied with from a procedural perspective and it takes effect from when the declaration is made – it cannot be backdated. So whilst it can address future incomings, it cannot be used to adjust the historical position.

A further planning opportunity arises where an income-generating asset is owned solely by the higher earning spouse. Consider this: Bob, an additional rate taxpayer, has an investment portfolio, which generates £15,000 worth of non-dividend income and £40,000 of capital gains. Bob's tax liability on these amounts would be £12,350 (£6,750 in income tax and £5,600 in capital gains tax). If Bob decided to transfer even 50% of the portfolio to his wife Brenda, who is a volunteer for a charity and has no income, with an automatic 50/50 split applying, a saving of just over £6,500 can be achieved. In a real life scenario, fine-tuning the percentages, e.g. 75:25 or 40:60, to make full use of allowances and rate bands would be necessary to mitigate the overall liabilities.

As transactions between spouses can be made on a no gain, no loss basis for capital gains tax purposes and without a charge to inheritance tax (at all or at least immediately – subject to domicile considerations), reallocating assets between them in the most tax efficient manner may seem like a no-brainer. A word of caution though: any such transfers must be genuine gifts with no strings attached, otherwise they will not be effective. So in the above example, Brenda must genuinely be able to benefit from the cash generated by the portfolio she would part-own – as opposed to using the monies and the tax saved to finance Bob's expenditure. As a result, practicalities and non-tax considerations of giving assets away should not be overlooked. In addition, not all inter-spousal transfers will always be as beneficial as they appear – where income differences and marginal tax rates are minimal or could push one spouse into the higher tax bracket; an immediate charge can arise (for example, in relation to a solely owned property on which there is an outstanding mortgage that the transferee spouse assumes liability for); or due to transaction costs (e.g. professional fees). Careful planning is therefore required to ensure such actual and potential costs do not outweigh the shorter or the longer term tax savings. All in all, ultimately, the right answer to whether joint asset ownership is the way forward is "it depends". The Rawlinson & Hunter LLP team can assist you to evaluate the full tax impact of any actions to ensure no unintended tax consequences arise and you can make an informed decision on whether to proceed.

NON-RESIDENT COMPANY LANDLORDS : ALL CHANGE

Read this if you are a non-resident landlord owning UK property.

The UK system of taxation of gains and income derived from real property situated in the UK but held by non-residents has changed significantly with new legislation effective from April 2019 and 2020. Individuals and companies are affected. This article provides an overview of the main changes, with particular emphasis on the taxation of non-resident company landlords.

RECENT CHANGES

To recap, from April 2019 gains on the disposal of commercial property by non-residents, including individuals and non-resident company landlords, are potentially taxable. These changes saw a further extension in the scope of taxation of gains realised by non-residents following changes introduced in April 2015; from that date, gains on UK residential property owned by non-residents were brought within the charge to tax. Prior to that, non-residents did not generally pay tax on UK gains from the sale of real estate in the UK.

The Annual Tax on Enveloped Dwellings (ATED) has been charged on UK residential property held in a corporate structure since April 2013, whether the company is UK or non-UK resident.

CORPORATE TAXATION OF OFFSHORE PROPERTY COMPANIES FROM APRIL 2020

From April 2020, offshore companies with UK rental income ceased to be taxed at 20% under the income tax regime, and are instead subject to 19% corporation tax. Annual accounts including a balance sheet will generally have to be prepared under UK or International accounting standards, even if annual accounts are not required in the jurisdiction of incorporation.

Non-resident company landlords already filing income tax returns will be automatically registered by HMRC for corporation tax with a 5 April year end, and sent a corporation tax unique taxpayer reference (UTR) in early 2020. They will need to notify HMRC if they intend to prepare accounts to a different year end. Although there is no need to reregister under the non-resident landlord scheme to continue receiving rents gross, HMRC agent authorisation for income tax will not transfer across to corporation tax, so companies will have to submit new agent authorisation forms to HMRC.

Other companies not registered under the non-resident landlord scheme whose tax liabilities are settled in full by tax deducted at source will not need to register for corporation tax.

Companies pay corporation tax on capital gains; any sale of UK property by the company will also be taxed in this way. The new capital gains tax rules also apply to ‘indirect disposals’; broadly speaking where there is a disposal of shares in a non-resident company which derives 75% of its value from UK property, if the non-resident individual has at least a 25% interest in the company.

The application of the corporation tax regime means that a number of new rules and reliefs will need to be considered. There are transitional rules for payments of tax on account, and deduction for interest will be restricted, if the interest exceeds £2 million.

WHAT EFFECT WILL CORONA VIRUS HAVE ON PROPERTY PRICES?

In these present difficult times, there is lots of speculation about a lot of things. The above is one such question. In this article Jeremy McGivern of Mercury Homesearch provides his view on the above question.

“Catastrophic, Cataclysmic, Apocalyptic.”

These are just some of the words that the media have used to describe the pandemic. And there is no doubt that in investment terms this has been a shocking few months, but it needs to be put into context. Would it be a bad idea to look at what has happened in the past in order to gauge what might happen next?

There are numerous examples but let’s just look at two:

1665 – The Great Plague killed 100,000 people in London (25% of the population) and was followed by the Great Fire of London that destroyed over 60% of the city.

1918-1920 – The Spanish Flu Pandemic infected 500 million people and killed over 17 million globally. Imagine what this was like for the battered populations of countries after World War I.

These were truly apocalyptic events. So, Covid-19 - Will it change everything?

Well, Steven Pinker, Johnstone Professor of Psychology at Harvard University, had this to say:

“We’re apt to overestimate how it will change the world... when we’re in the thick of a crisis punditry goes into overdrive and we imagine that the disruption that we are currently facing will be permanent, but there is a massive tendency to slip back into life as normal and I think that will be the overwhelming tendency.”

As examples, he pointed out that immediately after 9/11, the pundits had said there would no longer be mass gatherings in stadia, large corporations would never have HQ’s in a single building and that it would be the death of irony. Has any of this come to pass?

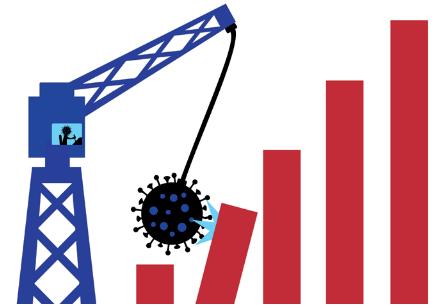
In fact, human nature hasn’t changed in millennia despite regular calamities, which is why Sir John Templeton’s pithy comment “The four most dangerous words in investing are ‘It’s different this time’” is so true. So, is it sensible to think it will be different this time, even in the face of the suffering Covid-19 is causing and the pundits’ predictions?

Another word that has been used to describe the current situation is “unprecedented”, which is probably accurate with regards the lock down. However, the policy makers’ reaction is not unprecedented and has been completely predictable, which is the essential point you must take into account when considering what will happen to property prices and indeed asset prices in general.

What do I mean by this?

I suggested in early March that governments and central banks worldwide would:

1. Print more money in the form of Quantitative Easing
2. Lower interest rates and that we could see negative interest rates (the IMF has actually been discussing this for well over a year now)
3. Continue with large infrastructure projects
4. Relax banking regulations to allow more credit into the system



This wasn't hard to predict as governments have been doing this for centuries.

For example The South Panel of the Monument in London describes Charles II's policy reaction to the Great Fire:

"Commiserating the deplorable state of things, whilst the ruins were yet smoking provided for the comfort of his citizens, and the ornament of his city; remitted their taxes, and referred the petitions of the magistrates and inhabitants of London to the Parliament; who immediately passed an Act, that public works should be restored to greater beauty, with public money, to be raised by an imposition on coals…"

In other words, they injected a huge amount of liquidity into the economy, the result of which was that:

"Haste is seen everywhere, London rises again, whether with greater speed or greater magnificence is doubtful, three short years complete that which was considered the work of an age."

Fortunately, it is human nature to fight back harder in the face of adversity: after the Spanish Flu epidemic, we had the "Roaring Twenties", a period of immense economic expansion and wealth. After the Dotcom crash in 2000, recession and 9/11 there was five years of economic expansion.

You may be thinking that this is wishful thinking and that we are about to see an implosion similar to 2008. Indeed, I have seen pundits suggesting a scenario worse than the Great Depression in 1929. But that is unlikely to happen now, in my opinion, for one very simple reason.

In 1929 and 2008 the banks and indeed everyone else were leveraged up to the eyeballs and fully invested. In other words, 1927 and 2007 were times to be fearful because everyone was being greedy. But right now and for the last few years the majority have been fearful (think Brexit and Corbyn); meanwhile UK & US banks are in good shape because of tight regulations since 2008.

This is from Bloomberg: "of all of the sectors really in the entire market, the banks are the only ones where you could say for certain that they were prepared for this environment. And the reason is part of the Fed stress test after the financial crisis required the banks to have strong enough balance sheets and diversified enough earnings to go through another financial crisis, without needing government assistance, so they were in a sense prepared for another financial crisis for the last 5, 6, 7 years..."

In 2008, the banks were part of the problem as they were imploding. Now they are in a position of strength, which is why we will soon see banking regulations relaxed; it will be done in the name of helping the "man and woman in the street and small businesses", which it will to a degree. However, what it will really do is boost asset prices just as it did after 2001, 2010 and every other time huge amounts of money have been injected into the economy.

Is this an environment in which you want to be short of property?

Currently, people are frozen by fear, but this is the exact time you want to be buying high quality property and assets to protect your family from future calamities, because while I think that we will see property prices boom over the next 5-6 years, I can also guarantee that they will crash again.

Why? Because markets are merely a reflection of human nature and we're not going to change: We overreact in pessimistic times and we become overconfident/greedy in the good times.

I founded Mercury Homesearch in 2001 and everyone told me I was mad because property prices were "too high". All the pundits and "experts" in the press agreed, but what happened? Prices more than doubled between 2001 and 2007. In 2010 the majority thought prices still had considerably further to fall and yet by the end of 2014 prices had increased 80% in prime central London.

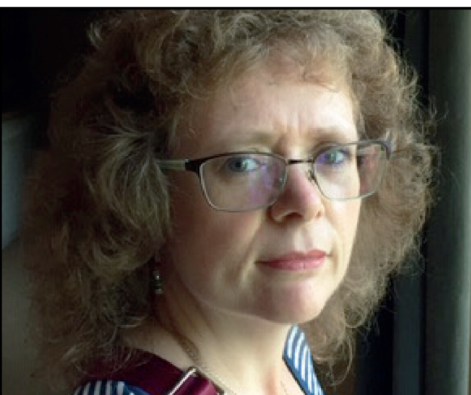
We will see significant increases again this time because, the world will keep spinning and governments worldwide will keep printing money and suppressing interest rates to erode their debts. The question is do you want to protect your family's wealth by acquiring high quality property and other assets or will you watch it be insidiously eroded by inflationary policies?

Does this mean that you should rush out to your nearest estate agent and buy a property? Of course not. You must be selective because even in the best locations there are certain properties that will outperform while others will massively underperform.

The views expressed above are those of Jeremy McGivern, the founder of Mercury Homes Search and, as we do not offer investment or property advice, are not necessarily those of Rawlinson & Hunter LLP.

A free copy of Jeremy's book, The Insider's Guide To Acquiring Luxury Property in London can be obtained by emailing *veronika@mercuryhomesearch.com* or calling 02034578855 (+442034578855 from outside the UK).

JACKIE HUNT: MANAGING AT HOME



With everybody encased at home, now may seem a strange moment to introduce you to our office manager, Jackie Hunt. But Jackie, who has been with the firm for over 30 years (she started at a very tender age!) embodies our values and it is her style of commitment to our clients and teams which we need most in these challenging times.

Jackie joined Rawlinson & Hunter LLP in 1986 as an office junior when the firm was based at Oxford Circus in Vogue House, home of the fashion magazine. Jackie's role in those days – long before computers – was to deal with the post (no emails either!), and to provide switch board cover.

Jackie joined at the time before open plan offices became popular (so will be well placed if they disappear again after the present troubles!). Jackie recalls sharing an office with two secretaries, one of whom worked for the senior partner, a gruff and, to the young secretaries, intimidating Yorkshireman. The shopping on Oxford Street was an obvious attraction. Jackie remembers being shown her colleague's lunchtime lingerie purchases one

day, when the senior partner walked in. The colleague's shopping was hastily thrown at Jackie, to avoid the embarrassment of the senior partner realising who the items belonged to.

Jackie is not the first member of her family to be part of the Rawlinson & Hunter LLP team. When she joined, Jackie was following in the footsteps of her grandmother who for several decades was the Firm's most important person – the tea lady.

The London office subsequently moved to Jermyn Street, and then to its present home in New Street Square in 2008. Jackie's role developed over the years, to the office manager role which she occupies now. As we write, she fulfils the office manager role from home marshalling her team to ensure we can work with clients in as normal a way as possible. Jackie says she loves her role as it has lots of contact with staff and clients, and no two days are the same. Jackie's days in Vogue House have obviously stayed with her as one of her favourite clients is a lady the firm helped develop in the fashion industry. Jackie always ensures she is in the reception area to receive the latest fashion tips when this client pays a visit! Given her long association with the Firm, we asked Jackie how she would define the Firm's culture. She said that clients tell her that what they like about Rawlinson & Hunter LLP is the Firm's willingness to invest in them, to get involved alongside them and to provide a personal service.

Hopefully we will all be back behind our desks soon and, when you are in our London office again, please do keep an eye out for Jackie and say hello.

PERSONAL TAX

KEY CHANGES FROM 6 APRIL 2020

Read this if you want to know of key changes to the tax rules for 2020/21.

6th April marked the start of another tax year. The Chancellor has been busy in recent times and there are a lot of new provisions which can impact on an individual's tax position. In this article, we look at some of the main changes.

CHANGES TO CAPITAL GAINS TAX PROVISIONS FOR PROPERTY

The deadline for reporting and paying CGT arising on the disposal of an interest in a UK property has changed for disposals from 6 April 2020. This change applies to UK residents disposing of UK residential property and non-UK residents disposing of UK property or land.

From 6 April 2020, if a UK resident individual disposes of an interest in a UK residential property, making a capital gain, they are required to report and pay the CGT due within 30 days of completion. Note that this change may not apply if the property was the individual's main residence during the period of ownership, as Principal Private Residence Relief ("PPR") is likely to apply, and as such CGT will not be due.

Non-UK residents are also required to report the disposal of interests in UK land and property within 30 days of completion (as previously), however the option to defer payment through the completion of a Self Assessment tax return is no longer available, and any CGT due is now also payable within 30 days of completion.

Disposals will need to be reported through HMRC's new online service.

HMRC will issue a late filing penalty (£100) and interest will be charged if the 30 day deadline is not met, although HMRC have allowed for a period of time to adjust to these new rules.

RELAXATION OF THE 30 DAY REPORTING DEADLINE FOR DISPOSALS UNTIL 30 JUNE 2020

HMRC have confirmed that they will not issue late filing penalties for CGT payment on account returns received late, up to and including 31 July 2020 (i.e. in relation to transactions completed between 6 April and 30 June 2020).

For transactions completed from 1 July 2020 onwards, a late filing penalty will be issued if they are not reported within 30 days.

Ensure that your Rawlinson & Hunter LLP contact is advised of the disposal as soon as possible.

ISSUES WITH PAYMENT DURING THE COVID-19 CRISIS

Late payment of CGT

HMRC recognise that some individuals may experience difficulties paying the cgt due during the covid-19 crisis, and they will consider a flexible approach to dealing with payment on a case by case basis.

2nd payments on account due 31 July 2020

Due to Covid-19, taxpayers who were due to pay their second payment on account for the 2019/20 tax year by 31 July 2020 can now defer the payment until 31 January 2021, i.e. when the 2019/20 balancing payment becomes due, without incurring interest or penalties.

Although the deferral is automatic, it is also optional, and should you wish to pay the tax on 31 July 2020 as usual, you may still do so.

OTHER POINTS THAT MIGHT AFFECT YOU

CGT - Principal Private Residence Relief

From 6 April 2020, the final period exemption on the disposal of your main residence has been reduced to nine months (previously 18 months).

Additionally, lettings relief will only be available if the owner is in shared occupation with the tenant, with a retroactive effect if your main residence was let before the change.

Entrepreneurs' Relief ("ER now BADR")

The lifetime limit has been reduced from £10m to £1m, from 11 March 2020. See the separate article on this found on page 3.

RAWLINSON & HUNTER

Income Tax

Finance costs

Since 2017/18, we have seen a gradual restriction in the deduction of mortgage interest in relation to rental properties. From 6 April 2020, a deduction for mortgage interest against rental profits is no longer allowable.

Instead, relief will be available by way of a basic rate tax reducer, and will be 20% of the lower of:

- The finance costs incurred during the tax year;
- Profits for the rental business during the tax year; and
- Total non-savings income that exceeds the personal allowance.

Inheritance Tax

Residence Nil Rate Band ("RNRB")

The RNRB increased to £175,000 from 6 April 2020, meaning that, taken with the current IHT NRB of £325,000, spouses or civil partners can leave up to £1 million free of IHT (although if the estate exceeds £2 million, this is tapered by £1 for every £2 in excess of the threshold).

Tax relief

Pension contributions

The Annual Allowance remains at £40,000 for 2020/21, although from 6 April 2020 this is tapered by £1 for every £2 that adjusted income exceeds £240,000 to a minimum Annual Allowance of £4,000 (previously the Annual Allowance was tapered when adjusted income exceeded £150,000, to a minimum Annual Allowance of £10,000).

Any unused Annual Allowance for the previous three tax years will be added to the Annual Allowance for 2020/21; the ability to use any unused 2017/18 Annual Allowance will therefore be lost if a contribution is not made prior to 5 April 2021.

Note that the Lifetime Allowance has increased for 2020/21 to £1,073,100 (previously £1,055,000).

Charitable donations and gift aid

Gift aid donations made during 2020/21, until the point of filing your 2019/20 tax return, may be carried back to your 2019/20 tax return thereby expediting the tax relief.

Assuming that your UK taxable income is sufficient to fully 'frank' the donation, there is no limit on gift aid donations, and making a donation under gift aid will provide your chosen charity with an additional 25% of your net donation and will also provide you with additional UK tax relief if you are a higher or additional rate taxpayer.

For further information on any of these topics, please contact your usual Rawlinson & Hunter advisor or one of the contacts found on the next page.

This publication and all other recent Rawlinson & Hunter LLP updates, including technical support on COVID-19 related initiatives, please see the technical updates section on our website here.

RAWLINSON & HUNTER

Partners

Mark Harris
Private Client Services
mark.harris@rawlinson-hunter.com
0207 842 2125

Chris Bliss
Corporate and Private Client Services
chris.bliss@rawlinson-hunter.com
0207 842 2122

David Barker
Private Client Services
david.barker@rawlinson-hunter.com
0207 842 2128

Kulwarn Nagra
Corporate Services
kulwarn.nagra@rawlinson-hunter.com
0207 842 2130

Paul Baker
Private Client Services
paul.baker@rawlinson-hunter.com
0207 842 2132

Andrew Shilling
Corporate Tax & Stamp Duty Services
andrew.shilling@rawlinson-hunter.com
0207 842 2135

Craig Davies
Corporate Services
craig.davies@rawlinson-hunter.com
0207 842 2136

Graeme Privett
Private Client & US Tax Services
graeme.privett@rawlinson-hunter.com
0207 842 2137

Chris Hawley
Trust & Wealth Services
chris.hawley@rawlinson-hunter.com
0207 842 2138

Phil Collington
Private Client Services
phil.collington@rawlinson-hunter.com
0207 842 2139

Toby Crooks
Trust, Wealth & Private Client Services
toby.crooks@rawlinson-hunter.com
0207 842 2140

Michael Foster
Trust, Wealth & Private Client Services
michael.foster@rawlinson-hunter.com
0207 842 2223

Paul Huggins
Private Client Services
paul.huggins@rawlinson-hunter.com
0207 842 2197

Trevor Warmington
Private Client Services
trevor.warmington@rawlinson-hunter.com
0207 842 2198

James Randall
Corporate Tax Services
james.randall@rawlinson-hunter.com
0207 842 2131

Kristina Volodeva
Private Client Tax
kristina.volodeva@rawlinson-hunter.com
0207 842 2126

David Kilshaw
Private Client Services
david.kilshaw@rawlinson-hunter.com
0207 842 2129

Alan Ive
Private Client Services
alan.ive@rawlinson-hunter.com
0207 842 2256

London Office
Rawlinson & Hunter LLP
Eighth Floor
6 New Street Square
New Fetter Lane
London EC4A 3AQ

Leatherhead Office
Q3, The Square
Randalls Way
Leatherhead
Surrey KT22 7TW

Tel: 0207 842 2000
www.rawlinson-hunter.com

Tax Pulse is intended solely as an overview of complex tax legislation. No action or omission should be taken in reliance on the articles in this issue without full and appropriate professional advice.

Rawlinson & Hunter is the trading name of Rawlinson & Hunter LLP, a limited liability partnership registered in England & Wales with registered number OC43050. The term partner, when used in relation to Rawlinson & Hunter LLP, refers to a member of the LLP. This communication contains general information only, and Rawlinson & Hunter LLP is not rendering professional advice or services by means of this communication.