Your Strategy?



# Tax planning ahead of the Budget on 3 March 2021

It is likely that Capital Gains Tax rates may go up and the allowances go down. Entrepreneurs Relief now called Business Asset Disposal Relief may also be adversely affected.

To avoid the changes you may want to crystallise gains before 3 March. We will be selling some of our clients’ investments that may be affected so that they pay 10% or 20% CGT in case that goes up.

# IR35 Tax changes now expected from 6 April 2021

For more details see the winter 2020 newsletter.

# Save tax when you sell your business - Entrepreneurs relief

Now called Business Asset Disposal Relief and the life time limit has been reduced from £10m to £1m. The Capital Gains Tax rate remains at 10% on the gain. From 3 March 2021, budget day, this may become restricted further or the tax rate increased or both. If you can, exchange contracts before 3 March 2021.

***Winter 2021***

# Income in retirement from your investments

Academic research has shown that selling investments on a monthly basis to fund income can have a negative impact on the value of the portfolio far more than you may think. Selling units when the market is down means you have to sell more units to get the same income compared to when the market was up.

There is also what is called sequencing risk. If the markets fall at the beginning of your retirement that will have a greater negative impact than is the market falls later in your retirement.

Recent research into retirement income and how to fund it has shown that a selection of Investment Trusts that have a history of paying an increasing dividend over more than 20 years is a good way to generate income in retirement and for some it may be possible not to have to sell investments to supplement this income. Also the dividends from these companies increase each year thus giving some protection against the effects of inflation.

We are shortly going to develop a portfolio of Investment Trusts for those clients drawing an income from their investments.

As a dual qualified Chartered Accountant and a Chartered Member of the Institute for Investments and Securities Alan is ideally placed to advise in these cases. If anyone knows of someone where we can help please let us know.

# Major Tax changes when selling a residential property?

You now need to file a tax return and pay the Capital Gains Tax, CGT, within 30 days of completion. As this needs you to:

* Have an HMRC Gateway account, a digital tax account
* Authorise your accountant electronically
* Set up a CGT UK Property account regardless of whether you or your accountant are reporting the gain.

The system does not interact with the Income Tax return system.

It is wise to let your accountant have the completion statement for the purchase and details and invoices for all structural improvements now even if you have no intention of selling.

If the return is filed late there is interest and penalties to pay and 30 days is proving in the real world to be too short a time in many cases to set all this up and pay the tax without getting caught for interest and penalties.

# Building industry reverse charge for VAT

**From 1 March 2021** subcontractors and contractors in the building industry will be affected by the reverse charge for VAT. What does this mean? The default position is the subcontractor assumes that the reverse charge system applies and does not charge the contractor VAT. It would be different if the contractor tells the subcontractor that they are the end user of the building. Then the subcontractor charges VAT in the usual way.

The contractor charges VAT to the end user in the usual way. They treat the reverse charge invoice from the subcontractor as both output and input VAT. In essence they pay VAT to HMRC on the subcontractors’ invoices and claim it back as input tax at the same time. The net effect is nil for the contractor. Selecting the correct setting in the accounting software will deal with all of this.

The subcontractor must state on its invoices:

1 all relevant information and details required on its VAT invoice

2 the VAT domestic reverse charge applies and that the contractor is required to account for the VAT to HMRC.

Subcontractors may want to consider filing VAT returns monthly if they are in a net repayment position.

# Capital Gains Tax Main Residence Relief



Care needs to be taken to ensure you get Main Residence Relief, MMR. HMRC are putting a lot of effort into this area. To qualify for this relief, a tax payer must provide evidence that their residence in the property showed some degree of permanence, some degree of continuity or some expectation of continuity. In a recent tax case the tax payer bought a property while continuing to live in rented accommodation so that he could do a major refurbishment. A third party offered to buy the property from him which he declined. Unexpectedly after he moved in the same person offered him a higher offer as long as he completed within a month which he accepted. HMRC challenged that he was entitled to MMR and therefore the gain was subject to Capital Gains Tax. He won the case as he was able to show that he did not expect the person to come back with a much higher offer.

# If you are about to buy a new Car then you should consider a Pure Electric Car. It may not be as expensive as you think!



Employees can also get help from the taxman. Salary sacrifice means that the company pays your lease premiums and your gross salary is reduced by the same amount. Effectively your lease premiums are paid free of tax and National Insurance and the employer saves Employers National Insurance at 13.8%

Fully electric cars get a grant when purchased new of £3,000. The company can claim 100% tax relief on the purchase. When the company sells the car the proceeds would be fully taxable.

For 2020/21 there is no benefit in kind. Then 2021/22 it is 1% and 2021/22 it is 2% until 2025. Benefits in kind are taxable. So very tax efficient to run an electric car on the business as the extra income tax is nil or very small.

There is also a grant of £350 on the cost of installing a charging point at your home or place of work.

However, you may want to consider leasing the car. The lessor claims the 100% allowance. The lessee claims tax relief on the net of VAT reclaimed rent. However the VAT that can be reclaimed is half the VAT charged. Worth considering as the technology is moving fast and car prices are likely to fall. A company buying a car outright might suffer a lot of depreciation. Although leasing for two years may be more expensive in the short term when you come to choose the next car the leasing costs for the same car may be less and there will be more cars to choose from that are more technologically advanced.

100% First Year Allowances on Hybrids are being withdrawn from 6 April 2021.

# Business travel relief issues for NHS Consultants

A recent tax case explored the travel expenses of an NHS consultant working at several different hospitals. They claimed travel expenses in their accounts for their private work. HMRC won the argument that it was home to principle place of business as the place they did business was in the hospitals and that they visited them regularly. To be able to claim travel expenses it needs to be not between your home and principle place of business. Ideally you need to be itinerant. So take care as you will be hit with interest and penalties if you wrongly claim.

# NHS Consultants should ensure they get early warning of their Pension Inputs

The NHS Pension Scheme is a defined benefit scheme. That means it pays a proportion of your final or average earnings as a pension when you retire based on the number of years you have worked for the NHS.

However, if the Pension Inputs, the notional cost of the benefit, exceed £40,000 in a year that excess can be added to your income for tax purposes unless you have unused pension tax relief from the previous 3 tax years.

If this happens you can ask the NHS Pension Scheme to pay the extra tax. However this will reduce your pension when you come to retire. To get the NHS Pension Scheme to pay the tax you must apply by 31 July in the calendar year after the year in which the tax year ended. For instance for the tax year ended 5 April 2020 you must apply by 31 July 2021.

We can calculate the impact on your pension of Scheme Pays if you wish.