

A.W.G

WARREN
& Son.

NEWSLETTER

August 2021

Covid

I cannot not mention Covid, and the devastation that it has caused to many businesses and of course tragically the loss of life.

We are now within the last two months of the Furlough grant and the Self Employed Income Support Scheme. Most of us are aware of the headline rates, but it is the calculation of the Self Employed grant that is causing confusion because the method of calculation has changed for the final fifth grant. The grant is now based on two turnover figures, those from the 2019/20 tax return, and also from the current return, 2020/21. These turnover figures must exclude any Covid SEISS grants received.



Incidentally if anyone wants an electronic copy of the 35 page article that Martyn has written, chronicling the events of the pandemic, please contact any member of staff and they will send you a copy.

HMRC is watching you

It is only in recent years that the taxman has decided to join the computer revolution. In our August 2018 newsletter I outlined the vast amount of information that they now hold, in fact every large transaction is notified to them. This includes the purchase or sale of land or property, or a car, every large transfer of money, every loan with a financial institution and every planning application. They know who lives at your house, they know virtually everything about you. This has now extended to your business, but they call it "Making Tax Digital". In fact this new system will allow them to search your records from their desktop. This may have the advantage that there will be considerably fewer visits by them to your premises, but they don't need to as the information is now sent to them. This all started in April this year, but only relating to VAT registered businesses with over £85,000 turnover. It is extending to all VAT registered businesses next April. Then in April 2023 all accounting records & annual accounts for unincorporated businesses will come within this new system. Limited Companies have a reprieve until 2026. Oh yes, I forgot; every employer also has to send details of all wages paid, to HMRC. The notification must be electronic and the latest date for submission is the actual day that the employee is paid. Like everything, this information is put into their 'Connect' system every day.



George Orwell and 1984 has arrived, but just a bit late.

Your Will

I cannot stress how important it is to make a Will, even for those with only a few possessions.

This article only covers the general topic of Will making.



In our next newsletter I will set out what should be included in a Will, how to prevent people trying to change a Will, and what assets not to include in a Will. If you would like to have the full article now please ask anyone in the office

A1. Drawing up a Will really is important. At any age a person can have a stroke or other debilitating illness and then possibly be incapable of ever making a Will. Also consider making a 'Living Will' (or 'Statement of advance decisions'), which would set out a person's wishes if one lacked mental capacity or the ability to communicate, or even if one becomes clinically dead. A Living Will should be compatible with a Power of Attorney (health), but if they conflict the more recent document would normally take precedence.

A2. Transfers of money to family, or indeed any other person, during one's lifetime can create problems for the executor, particularly in trying to ascertain whether it was a loan or a gift. If there is no supporting documentation either way, or other form of evidence, then it will be the balance of probabilities that will determine the outcome (the nature of previous or subsequent transactions will also be taken into account). Generally transfers to a close relative will be treated as a gift, and those to a third party as a loan. In many instances they start out as a loan and later become a gift. This can be exacerbated where each party retained a copy of the loan agreement, and then when it became a gift only one copy was torn up. Many parents lend money to their child to buy a house, and create a legal charge on the property, so that any partner cannot benefit on divorce or separation. However this debt remains an asset of their estate, and the seven year period only starts when the debt is forgiven. Frequently a loan is made by each parent and the IHT allowance of £3,000 for each, is then written off each loan annually.

A3. The opposite of the previous paragraph is where someone has previously lent you money. Many people just leave money to these people as recompense. However, particularly where Inheritance Tax is involved, the Will should state that it is a repayment of a debt, which then reduces the net value of the estate.

A4. It is the duty of the Executor, or Personal Representative, to compile a list of all the assets and liabilities of the deceased. This can be a daunting task and therefore ensure that such a list is maintained during one's lifetime to make this task easier.

A5. Before making a Will always undertake basic Inheritance Tax planning:

There are three main exemptions which are not limited in value -

- i) Gifts in lifetime or on death to one's spouse.
- ii) Gifts to anyone, including a Trust, if the donor survives seven years.
- iii) A trading business, after two years ownership, and includes most AIM Companies.

- A person's wishes should generally override any tax consequence. However for example, two gifts which do not attract IHT are gifts to one's spouse and gifts of a trading business. As a result a gift of a trading business to a spouse is wasting one of those two IHT free gifts.
- Do not lend or give money to a child to start a new business, consider being a part owner.
- Selling a trading business creates a potential IHT liability of 40% of the proceeds. Other basic Inheritance Tax planning would include gifting £3,000 annually, and making gifts out of surplus income.

A6. Give away in one's lifetime assets that are likely to increase in value, and keep those that are likely to decrease. Always be aware that under the 'gifts with reservation' rule, any gift made where you retain some benefit will be added back into your estate. An example is where you gift your home to a child and then continue to live there.

A7. Consider having joint savings, or at least a joint bank account, to enable the survivor to have access to funds before Probate is granted.

A8. Ensure that the proposer for any life assurance policy is not in the same name as the life assured, as this only increases the value of the Estate, and probably the Inheritance Tax liability. One of the advantages of an assurance policy is that it releases funds almost immediately after death.

A9. Access to social media sites, such as Facebook, will close a site permanently if they become aware of the death of a contributor. However there is often a 'legacy' section in the general settings of the site to pre determine the future status of the site after one's demise.

A10. Never let the 'tax tail wag the commercial dog', and always consider the impact of any decision on other taxes (IT, CT, NI, VAT, SDLT & CGT) or possible future National or Local authority benefits.

A11. There are many people who never make a Will during their lifetime. This can cause delays in appointing an Executor, who in such circumstances is called a 'Personal Representative'. However the State has produced a 'Will' for any who has not made one themselves. This 'Will' makes specific provision for the surviving spouse and any children.

If these do not exist, then the estate is distributed between other remaining relatives. If there are no relatives whatsoever then the Crown gets the assets.

A12. There is a second category of people who do not make a Will, but this time it is intentional. If all one's assets are in joint names, as joint tenants, this can avoid the need for a Will and the need for Probate, and it can provide marital harmony (knowing that a Will cannot leave the deceased's share to someone else). A further advantage is that there will be no probate fees or the sometimes costly and time consuming process of obtaining Probate. In this respect it is also possible to arrange for the shares in one's own Company to be owned jointly. However although there is no requirement to obtain Probate for any asset held as joint tenants, it may cause problems in the future if there is too long a delay. This problem may occur on the second death as it will then be necessary to obtain Probate for both deaths, if the asset is then a bequest in the Will. This would be aggravated if there was a rise in the cost of obtaining Probate, in addition to the additional time it would take to obtain Probate. Another alternative to avoid Probate would be to gift all one's assets into a Trust during one's lifetime, although this causes problems if the amount exceeds the nil rate band. However a small problem may arise in that Premium bonds and ISAs can only be in a sole name.

A13. There is a potential trap if a person makes a gift into a Trust more than seven years before their death. Then within a seven year period of making that gift, the person makes a second gift direct to a person other than their spouse. The first gift could have taken place up to fourteen years before death and still have to be added back into the estate.

Corporation tax rates

In the last Budget it was announced that the rate of tax for large Limited Companies would increase from 19% to 25% with effect from 1st April 2023. Large Companies are defined as those with taxable profits exceeding £50,000 and for other Companies they keep the current rate of 19%. The last time we had two rates of Corporation Tax (2014/15) there was a marginal rate for profits between the two rates.

If this same marginal rate is repeated then Companies with profits between £50,000 and £250,000 will pay a rate of 26.5% on the profits between £50,000 and £250,000. To make matters more complicated the £50,000 figure is divided by the number of Associated Companies. So, for example, if there are four associated Companies, the 26.5% rate starts at profits of £12,500, for each of the four Companies





This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases, so please contact us for personal advice on your own affairs.

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