

A bronze statue of a young person, possibly a dancer or a child, stands in the center of a field. The statue is surrounded by a dense carpet of purple and white flowers. In the background, there is a lush green forest with various trees, including a prominent weeping willow on the right. The sky is clear and blue.

A·W·G

WARREN  
& Son.

NEWSLETTER

July 2023

## *Staff Announcement*

Kandy has retired this month after an extraordinary marathon of forty-three years with us. We can't spill the beans on her precise age, but let's just say she's now achieved a legendary level of experience that would make any calculator blush. She may not be with us full-time anymore, but she's taking on a few select assignments to keep her accounting spark alive. We wish to thank Kandy sincerely for her years of exceptional service and unwavering commitment. She should take pride in her remarkable career. We send Kandy off with our warmest wishes for an amazing future filled with adventures and well-deserved relaxation.

The majority of our previous newsletters have highlighted problems that can arise with HMRC and how to avoid their penalties and fines. This newsletter looks more at the positive side of tax saving.

## *Property transfers and gifts to a child*

One area that is frequently raised is that of gifting a property to a child. This is in my opinion a very unfair aspect of taxation in that capital gains tax at probably 28% must be paid on the difference between the purchase price and the market value of the property shortly after the gift. If we are told that this has already happened then little can be done to reduce the tax. However the main route to avoid paying Capital Gains Tax now is, prior to the gift, to transfer the property into a discretionary Trust using the hold over relief available under s.260 TCGA 1979. However, this only defers the tax, which must be paid on the eventual disposal of the property. More options would have been available if when the property was actually purchased a declaration of Trust had been created where the beneficial ownership is with the child and the legal ownership stays with the parent(s). Alternatively a discretionary Trust could be set up. It is not strictly true to say that once a taxable capital gain has been made, there is no way to avoid the tax. It is possible to defer the capital gains tax by making an investment into an Enterprise Investment Scheme, but the main danger is the financial risk to the investment. This is a good opportunity to remind clients that a form must be submitted to HMRC within 60 days of the



transfer of a taxable residential property (normally a rented property or a holiday home), together with the payment being an estimate of the capital gains tax due.

## *Inheritance Tax*

Inheritance tax is very much in the news currently with many pundits suggesting its abolition. The main allowance is £325,000 with an additional allowance for one's residence rising to £175,000 in April 2020. This additional allowance is restricted to smaller estates (under £2m) and the residence must be left directly to one's spouse or children.

*Other allowances include –*

- assets left to one's spouse,
- ownership of a trade,
- living for seven years after a gift.

For those wishing to skip a generation, the £3,000 annual gift allowance could be utilised by investing into a grandchild's pension fund, or child's ISA. There are two lesser known allowances, firstly is that regular gifts of surplus income in the previous seven years do not have to be added back into the estate. Secondly permitted savings into one's contribution defined pension scheme are not included as assets for inheritance tax purposes.

## *Property investment*

Now that the lifetime allowance has been removed there is a possibility of investing in property, normally only commercial, in a self-administered pension scheme. This comes with a warning being that a future government might reverse this allowance removal. If one wishes to invest in property generally, an investment into Real Estate Investment Trust (REIT) or a Property Authorised Investment Fund (PAIF) produces income that is tax free, and free of any capital gains. Many people are tempted to invest in property through their own limited company because they are told that the maximum rate of tax is 19% (for profits under £50k only), compared to 20% to 45% for individuals. Although (in most cases advised by accountants) this is not strictly correct, because paying 19% corporation tax locks the money into the Company.





To obtain the money personally one has to pay an extra tax if withdrawn as a dividend (at rates between 8.75% and 39.35%), or if the Company is liquidated where normally the extra tax is at 20%. The second reason that they are told is that they will obtain 100% tax relief on loan interest compared to only 20% for an individual. Once again this is not strictly correct because they actually only get tax relief at 19% as you cannot get more tax relief than the rate of tax that you are paying. No tax relief is available on the interest when the money is withdrawn from the Company. There are of course other valid reasons for forming a limited company, but not these.

### *Making Tax Digital*

Shortly after we issued our last newsletter HMRC announced that the start date for 'Making tax digital' would be put forward until April 2026. At present it will be for all business, including rentals with gross income over £30,000, but it would not surprise me if this was changed again.

This project was originally announced in 2015 stating that it would be introduced in April 2020 at a cost of £226 million. This date was delayed four times and now when the date has been extended to April 2026, the cost has been revised to £1.3 billion.



### *Wills and Probate*

Now a short update on Wills and Probate. Martyn covered Wills extensively in three separate parts in previous newsletters. Please let us know if anyone requires the full article in one document.

One item that was not covered in that article was the little known fact that everyone has a Will, whether they have written one or not. For those who have not produced their own Will the Government has a standard one for anybody who dies, which they call Intestacy, and the provisions are –



- In this Intestacy “Will” if the remaining spouse has no children, irrespective of other living relatives, they receive the entire estate.
- If there is a surviving spouse and children the spouse receives the first £270,000 and half of the remaining estate. The children then share equally the remaining half (if under 18 then in Trust until they are 18).
- If only children survive then they share the whole estate equally.
- If you have no living relatives and you do not make a Will then all your estate effectively goes to the Crown.

### *A brief word on Probate.*

When any person dies, any asset that they own, in just their name, is frozen until Probate is obtained. If a valid Will is in existence in which an executor is appointed then they must apply for Probate. If there is no Will or an executor has not been appointed then a family member can apply, under a separate procedure. Probate can take months to obtain, and it is only when it is granted that assets can be transferred to the beneficiaries. There are two main exceptions, firstly and most importantly, if an asset such as invested money or a property is in joint names then it automatically passes to the other person at the date of death. It is not included in the probate procedure and cannot be left to anyone else in the Will. The second exception is that small investments in UK institutions can (at their discretion as to the amount) transfer the money to the executor named in the Will.

### *Stealth taxes*

The annual personal income tax allowance and the increase to the 40% rate have not increased significantly since April 2019. Then one has to go back to April 2017 when there was the last increase for the £20,000 ISA limit and the £85,000 VAT threshold. For Inheritance Tax Allowance we would have to go back to 2009 when the allowance was increased to £325,000, and even further to 1981 when the annual gifts allowance was last increased. The freezing of allowances is called a ‘stealth tax’. There are two other less well know stealth taxes. Firstly, one starts to lose ones personal tax allowance when income reaches £100,000 and this has remained static since 2010, and secondly child allowance is restricted when ones income reaches £50,000 and this figure has been the same since 2013. Taxable Income can be reduced by making payments

into a pension scheme within limits, by having a salary sacrifice, distributing income within the family or gift aid relief. Clients with their own limited Companies can of course completely control their income (both salary and dividends) particularly by evening them out between tax years.

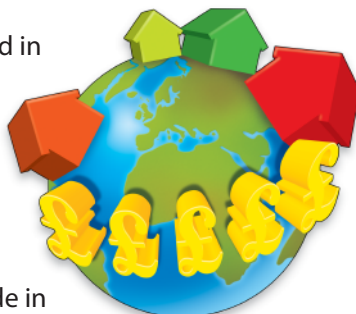
## VALUE ADDED TAX

### *New Vat Penalties*

The VAT penalty system has been revised this year. Filing a VAT return late (even a repayment return) will now incur a penalty point. Once a business accrues a specified number of points (four for those filing quarterly returns), a £200 penalty will be issued. Further penalties also of £200 will then be charged until the points reset to zero - which will only happen after a "period of compliance", i.e. filing all returns on time. For late payments, a separate system of charges will apply. Provided that the VAT is paid in full between days one and fifteen (day one being the due date), no penalty will be charged. Anything outstanding the day after that will incur a 2% penalty. If any VAT is still outstanding on day 31 it will incur a further 2% charge. Further lateness will attract a penalty at 4% on an annualised basis until the debt is settled.

### *Overseas aspects*

A final word on overseas income or assets. Any individual who is resident and domiciled in the UK is liable to income tax on their worldwide income irrespective of whether it is sent to the UK or not. Similarly any capital gain made anywhere in the world is also liable to capital gains tax in the UK. For both income and gains the rules are the same as if the income or gain had been made in the UK. Furthermore Inheritance Tax is calculated on any asset either in the UK or anywhere else in the world (with different rules for those not domiciled in the UK).





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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