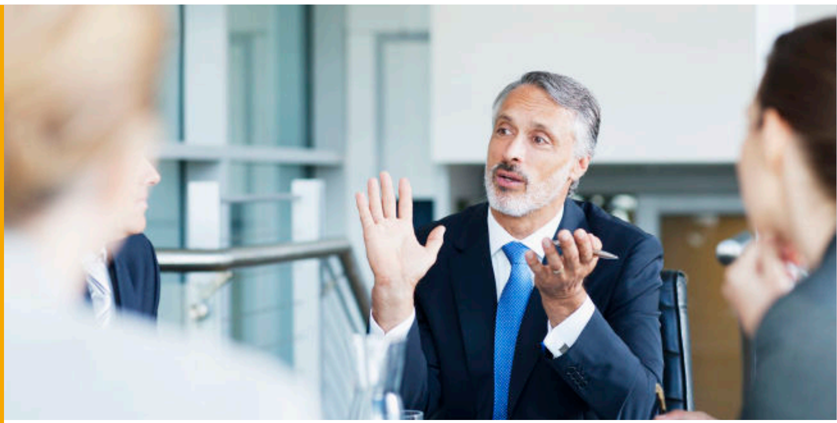


Sibbalds
CHARTERED ACCOUNTANTS

PayLessTax
2024 Spring Edition

The Child Benefit's Nemesis

Child benefit (CB) and its nemesis, the high income child benefit charge (HICBC), have been prominent in the news for some time, culminating in the recent Spring Budget changes.

- For the present 2024/25 tax year the HICBC will only start to apply when an individual's 'adjusted net income' is in excess of £60,000 (previously it was £50,000).

- The HICBC will only fully apply once that individual's 'income' reaches £80,000 (previously £60,000).

- From April 2026 the HICBC will be based not on an individual's income but the income of the family unit as a whole (married couples/civil partnerships and co-habitees).

- Although this may be fairer, it is expected this revised approach will generate far more money for the Treasury than at present.

There are a number of ways the HICBC can either be mitigated or wiped out altogether, such as:

a) Register for CB but do not claim it. This protects the claimant's state pension rights but ensures that the HICBC will not apply.

b) If you are a couple, look whether it is feasible to even up the income between the two. For example, putting interest bearing bank accounts into the name of the person with the lowest income. From an HIBCB perspective this is only likely to work as regards the 2024/25 and 2025/26 tax years. However, it may have a knock on effect of reducing the couple's overall income tax liability.

c) After taking the appropriate IFA advice, look at investing in an Individual Savings Account (ISA) as income arising within that investment vehicle does not come into the equation when calculating the £60,000 starting threshold. Capital growth investments also work in this respect.

d) A person's 'adjusted net income' can be reduced by making additional pension contributions out of after tax income or by way of a charitable gift aid payment. As well as potentially mitigating the HICBC it should trigger off an additional income tax saving whilst either enhancing one's pension provision or assisting a much loved charity.

e) Another option on the pension front would be to go down the salary sacrifice route. Assuming your employer finds it acceptable, you could agree to give up part of your salary so the employer pays the foregone salary into your pension pot along with the employees national insurance (NI) saved as a result of this. If the employer is benevolent, they may agree to top up your pension provision even further from the employers NI saved on the salary sacrifice. Your net take home pay should not be negatively affected by this.

TIP... The ideas proposed in this article can also apply to those individuals who find their total income for a tax year is likely to exceed £100,000 at which point they will start to lose their personal allowances, effectively starting to be taxed at 60% (65% if Scottish resident) for income falling between £100,000 and £125,140.

Property Incorporation Pitfalls

Incorporating a property portfolio (PP), if appropriate to the taxpayers particular circumstances and implemented in the correct way, can result in some positive tax savings as regards capital gains tax, income tax mitigation and inheritance tax. However, it is important to be aware of the potential pitfalls before going down this planning route.

Pitfall 1

Over the past few years landlords have been hit with a number of negative tax changes which have impacted upon their bottom line, one is the restriction of tax relief on loan interest suffered to a 20% tax credit. This came into play from April 2017 and since then **there have been a number of tax schemes rolled out with expensive fees attached, some involving incorporation as part of the planning, which upon scrutiny, are unlikely to work**. These have already piqued HMRC's interest and enquiries are starting to happen.

Pitfall 2

If you have debt on these properties you are likely to have to go to the lender(s) to look at refinancing.

- Are there any penalties attached in doing so?
- What is the administrative cost of this process?
- Is the lending rate going to be higher?

Pitfall 3

If you have a number of properties which you actively manage as a business rather than a passive investment, it may be possible to avoid a capital gains tax hit on transferring the properties across to the company by claiming what is known as incorporation relief (IR).

HMRC lost a court case where the lady incorporated 10 properties and had been personally working on average 20 hours a week looking after them. Although the court confirmed that she was actively managing the properties and therefore IR was allowable, **they did not clarify in general at what point a property portfolio moved from a passive investment to a business. Therefore, the less properties you have and the less hours personally worked on them the greater the risk that HMRC will reject your claim for IR.**

Pitfall 4

If you have been refinancing your existing property portfolio, perhaps to acquire more properties, then you could find that IR is restricted where the net asset value of your portfolio is less than the capital gain which would arise if IR could not be claimed at all.

Example

- Javid and Marie transfer their 15 properties into a company.
- They had refinanced a number of times to build the portfolio.
- If IR was not claimed the capital gain would be £750,000
- The net value of the properties at the time of incorporation was £500K (market value £2m less debt of £1.5m).
- IR could be restricted to £500K and capital gains tax may be due on £250K.

Pitfall 5

If you are not an established partnership you may be liable to land taxes based upon the market value of the properties at the time of incorporation.

Pitfall 6

If you are intending to extract all the net income out of the company each year you may find that after taking account of corporation tax, income tax and possibly national insurance you end up paying more tax than if you had retained the properties personally.

TIP... There are lots of positives to incorporation if the circumstances are right for you. Come and speak to us beforehand to see if that is the case.

Deregister Dilemma

Since 1st April 2024, an ongoing VAT registered business can deregister for VAT if they believe that their taxable turnover for the following 12 months is likely to be no more than £88,000. Over the past 7 years that threshold was set at £83,000.

In this difficult, challenging economic environment, for many eligible VAT registered businesses, this may seem an attractive option right now, especially if their customers cannot claim the VAT back.

The potential positives might be:
a) It could make them more competitive in the sector they operate within.

b) The administrative cost and time in submitting quarterly VAT returns would no longer be a headache.

c) They could bank some or all of the VAT saving rather than pass it on to the customer.

However, before fully committing to going down that route some consideration should be given to the following points:

- The business would no longer be able to claim back the VAT suffered on business expenditure incurred, either in whole or in part.

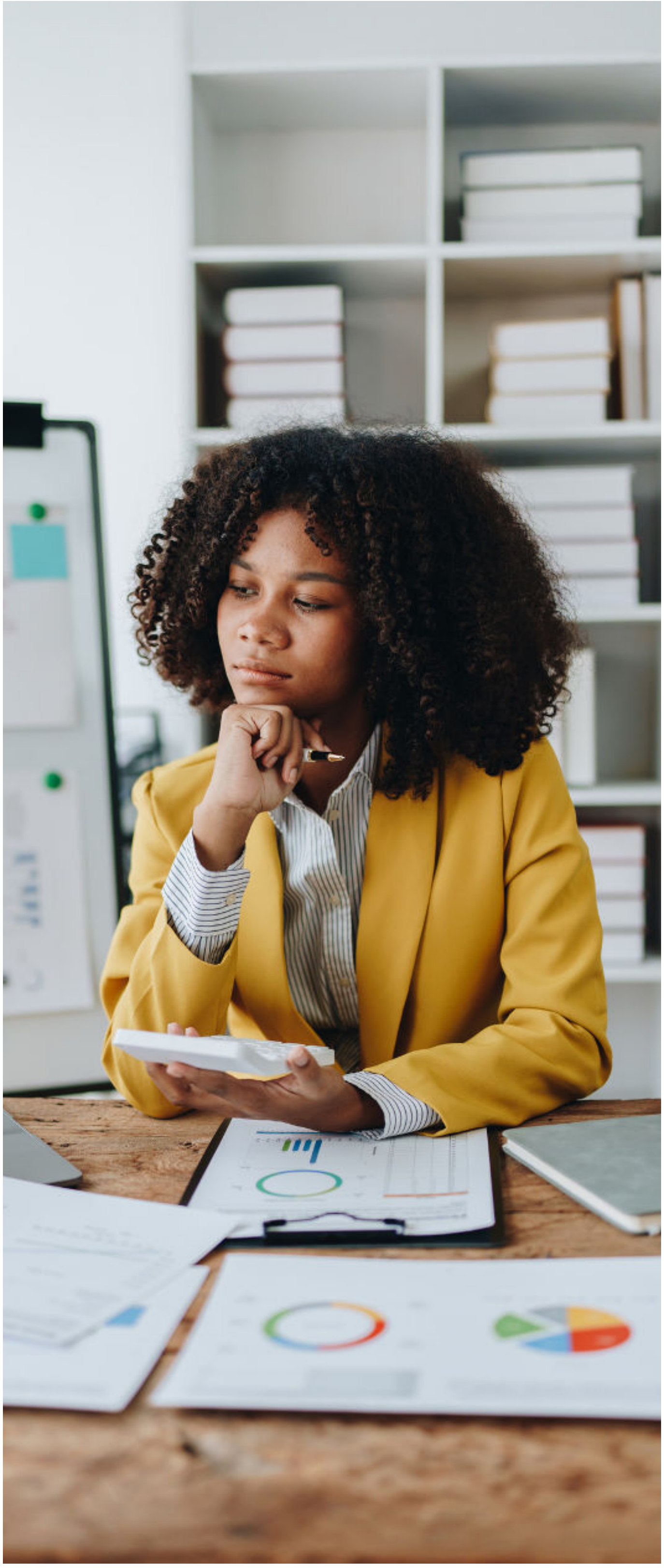
- If c) above is a motivation, you could find that you may struggle to deregister as your projected taxable turnover figure may keep you above the £88,000 threshold.

Assuming you still want to deregister and can do so, there may be a nasty surprise when submitting your final VAT return on the grounds that:

- **VAT output tax could be charged on the market value of stock and assets held at the time of deregistration**. When carrying out this exercise you can ignore those items where the business did not claim the VAT input tax on acquisition plus any stock which, if supplied, would either be exempt or zero rated for VAT purposes. If the tax outstanding is less than £1,000 the business does not need to pay this over.

- **If you have acquired property or land in the past and made an election to opt to tax it**, primarily so you could reclaim the VAT input tax on expenses relating to it, **you may be liable to VAT output tax based upon its market value at the time of deregistration**. If the opt to tax election was made more than 20 years ago you may be able to cancel it prior to deregistering which would avoid this complication.

- If the business had, in the previous 10 years, purchased a capital asset which cost £250,000 (excluding VAT) and had claimed the VAT input tax, HMRC may be able to claim some of that VAT input tax back due to the deregistration.



TIP...

We would be happy to look at whether or not you fit the eligibility criteria for de-registering and if so, whether, in your circumstances it would be appropriate to do so.

A Wasted Chattel

As the cost of living crises bite more people are looking to sell off valuable assets to maintain their standard of living.

Doing so may or may not have tax consequences, depending upon the item concerned and the level of consideration received for it.

These are known as chattels which can be broken down into two categories, wasting (WA) or non-wasting assets (NWA).

A WA is deemed to be one with a useful life expectancy not exceeding 50 years. A typical WA might be a car, watch or boat. **There is usually no capital gains tax (CGT) implication** on the disposal of a WA irrespective of whether it makes a gain or a loss.

A NWA is a chattel which has a predicted lifespan exceeding 50 years. Examples of this might be fine art, furniture, sculptures, jewellery or wine. **Assuming this is not a trading activity it can potentially have CGT implications.** If only one chattel is sold there are a variety of consequences:

- **If the consideration received is £6,000 or less, then no tax consequences arise.**

- **If the disposal proceeds exceed £6,000 then the chargeable gain for tax purposes is the lower of :**

a) The actual gain or
b) (The proceeds minus £6,000) multiplied by the fraction 5/3. This is known as the marginal relief calculation.

Example
Justin sells an antique mirror for £7,500 which he originally acquired for £3,500 leaving him with a chargeable gain of £4,000.

The marginal relief calculation will be (£7,500 - £6,000) x 5/3 = £2,500.

Justin's chargeable gain will be £2,500 as that is less than the actual gain of £4,000.

- **If the proceeds are less than £6,000 and less than the acquisition cost, the claimable capital loss is restricted.**

Example
Rohina sells a painting for £2,000 which she originally bought for £7,000.

The capital loss is restricted to £1,000 (i.e. £7,000 less £6,000).

Be aware that if a particular chattel is part of a set and you sell off each asset within it separately, to the same person or somebody connected to them, it is treated as one disposal and therefore one looks to see if the aggregate proceeds received exceed the £6,000 threshold.

A set is deemed to be one or more assets which are essentially similar and complementary and their value taken together is greater than their total individual value.

Example
Nisha acquired a set of 6 vintage dining chairs for £2,400 in August 2010. She sells 3 of them to Bradley for £5,000 in December 2023 and the remaining 3 to Bradley's wife, Sophie, in March 2024 for £6,000. They will be deemed to be a set. The chargeable gain will be the lower of:

a) The actual gain £8,600 (i.e. £11,000 - £2,400) or
b) (The proceeds £11,000 – £6,000) x 5/3 = £8,333.

The chargeable gain in this case will be £8,333.

TIP... If you are about to sell a chattel or chattels please do not hesitate to call us to review the tax implications.

We are here to help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

Sibbalds
Oakhurst House, 57 Ashbourne Road,
Derby, DE22 3FS

Tel: 01332 242 257
Email: advice@sibbald.co.uk
www.sibbald.co.uk